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ADVISORY SERVICES

National Development Consultants (Private) Limited Pre-award Assessment Report

September 2011



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Glossary of terms

ACA	Associate Chartered Accountant	KP	Khyber Pakhtunkhwa
AGM	Annual General Meeting	KPIs	Key Performance Indicators
ASP	Assessment and Strengthening Program	Ltd	Limited
BoD	Board of Directors	M&E	Monitoring and Evaluation
BoM	Board of Management	MoU	Memorandum of Understanding
CEO	Chief Executive Officer	NDC	National Development Consultants (Private) Limited
CFO	Chief Financial Officer	NOC	No Objection Certificate
CO, 1984	Companies Ordinance, 1984	PC	Purchase Committee
CRE	Chief Resident Engineer	PHE	Public Health Engineering
CSS	Central Superior Services	Pr	Principal
CV	Curriculum Vitae	PS	Personal Secretary
Dy	Deputy	PEC	Pakistan Engineering Council
Engr.	Engineer	PM	Project Manager
EGM	Extraordinary General Meeting	Pvt.	Private
EPC	Engineering, Procurement and Construction	QMR	Quality Management Representative
FATA	Federally Administered Tribal Areas	RSPN	Rural Support Programmes Network
FBR	Federal Board of Revenue	SDO	Small Dams Organization
FY	Financial Year	SECP	Securities and Exchange Commission of Pakistan
GM	General Manager	Sr	Senior
GoP	Government of Pakistan	Str	Structural
HO	Head of Organization	ToRs	Terms of Reference
HR	Human Resource	IT	Information Technology
IFRSs	International Financial Reporting Standards	Rs. or PKR	Pak Rupee
ITO, 2001	Income Tax Ordinance, 2001	USAID	United States Agency for International Development
JD	Job Description	US\$	United States Dollar
Jr	Junior	WAPDA	Water and Power Development Authority
JV	Joint Venture		

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September 2011



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ASSESSMENT REPORT



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Private & Confidential

Assessment and Strengthening Program
Sector F-10
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For the attention of: Mr. Ejaz Rahim
Chief of Party

28 September 2011

Pre-award assessment report on National Development Consultants (Private) Limited

We have made a review and evaluation of the managerial capacity and internal control systems of the National Development Consultants (Private) Limited using those criteria established by ASP-RSPN per the USAID standards. Our review included tests of compliance with the organization's stated procedures to the extent that such testing was deemed necessary and feasible. Our review is not an audit of any financial statement (s) prepared by National Development Consultants (Private) Limited.

The management of the National Development Consultants (Private) Limited is responsible for establishing and maintaining systems of internal controls and financial management. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization with generally accepted accounting principles. We understand that the objective of those financial management and internal controls procedures comprehend in ASP-RSPN's criteria per the USAID standards is to provide similar assurance.

Based on this knowledge and the review and evaluation conducted by our firm, we believe that current policies and procedures of National Development Consultants (Private) Limited carry High risk for being sufficient for USAID/ Pakistan's purposes, as explained in the "Executive Summary" section of our report.

S. Bakhtiyar Kazmi
Partner





EXECUTIVE SUMMARY

A. Introduction to organization

- The Company was established on 16 August 2007 under the Companies Ordinance, 1984. Registered office of the Company is situated at 165-M, Gulberg-III, Lahore.
- The Company commenced its operations from 01 July 2010 after taking over operations of National Development Consultants, a partnership firm registered under Partnership Act, 1932. It is primarily engaged in providing consulting engineering services.
- NDC entered into an agreement dated 01 July 2010 with National Development Consultants, a partnership firm registered under the Partnership Act, 1932 with an objective of taking over the business of the firm including Assets, Liabilities, Goodwill, and Rights, belongings or appurtenances as specified in schedule A to the agreement. The three partners of the firm, along with Mr. Ch. Foad Hussain, are the directors of the Company.
- By virtue of the agreement, assets of the firm amounting to PKR 30 million (US\$ 348,837) were transferred to the Company. (Please refer Annexure M for detailed description of terms and conditions of the agreement).
- The firm commenced its operations in 1977 and has carried out more than 250 projects within and outside Pakistan. The firm has completed projects in the fields of water resource development, agriculture development, irrigation and drainage, flood control, dams and hydropower, highways and environmental assessment.
- As per Form – A filed by the Company with SECP, NDC has a paid-up capital of PKR 60 million (US\$ 0.70 million) divided into six hundred shares at an issue price of PKR 100,000/ share (US\$ 1,163/ share).
- The Company has a staff resource of 782 employees out of which 108 employees are related with General Administration. Project related staff of 674 employees (86% of total number of employees) comprise of 409 technical staff and 265 support staff (detailed analysis provided in Human Resource section of the report).

B. Introduction to assignment

- KPMG was assigned by ASP–RSPN to carry out pre-award assessment of NDC. KPMG was mandated to carry out the pre-award assessment in accordance with the Task Order shared with KPMG through email dated 05 September 2011.
- The overall objective of the pre-award assessment was to provide reasonable assurance to ASP-RSPN/ USAID-Pakistan that NDC has an acceptable organizational and management structure, accounting, financial management systems and other systems of internal controls, quality assurance capabilities, as well as acceptable policies, procedures and practices.

KPMG assessment methodology

- The pre-award assessment was carried out in accordance with the task order. A field review of the Company was carried out in accordance with KPMG's Assessment Methodology.
- KPMG assessment methodology was based on the premise that in order to successfully assume financial and programmatic accountability for an award, the potential recipient needs certain minimum capacities and systems identified from USAID rules and regulations and international standards.
- KPMG methodology for pre-award assessment evaluated minimum capacity requirements for the potential recipient. Assessment procedures were designed to:
 - a) Check (where applicable) current and possibility of future compliance with the United States Government rules and regulations.
 - b) Evaluate organization's capacity for receiving the future higher assistance based on a comprehensive absorptive capacity analysis.
 - c) Check that management leadership, organizational strengths, quality of staff, and quality of processes and procedures have the potential to support the management of a project.

- d) Perform walk through and test on sample basis on the financial, management and procurement systems
- USAID's relevant rules and regulations were referred for guidance to determine the benchmarks against which the Company was to be assessed.
- Our key assessment procedures included:
 - a) Obtaining detailed understanding of Company's policies and procedures, its organizational and legal structure;
 - b) Obtaining detailed understanding of Company's operations during last three years;
 - c) Evaluating compliance with stated policies and procedures; and
 - d) Reviewing and analyzing Company's progress and management activities on key clients being served by the Company.
- Certain key information/ documentation requested in respect of project management and reporting was not provided by the management of the Company (please refer Annexure V for detailed description of outstanding information/ documentation).
- Provision of complete relevant information might have affected our overall assessment of the Company. The effect, if any, of the missing relevant information cannot be determined at this stage.
- As mentioned earlier, the Company took over the operations of the Firm. Accordingly, the experience profile of the Firm has been presented by the management as the experience profile of the Company. Our analysis identifies, to the extent possible, the information pertaining to the Firm as well as to the Company.
- Based on KPMG's assessment procedures, risk ratings were assigned to each core function. The rating signifies our understanding on the likely risk for future funding of a project.

Executive summary

Risk assessment matrix

Core function	Key Observations and Conclusions	Rating	Page Ref
Governance and management structure	<ul style="list-style-type: none"> Discrepancies in business transfer arrangement. Likely tax compliance issues. Likely issues in corporate filing with respect to: a) in-kind issue of share capital; and b) cash payment/ receipt of cash in consideration of paid-up capital of PKR 60 million (US\$ 0.69 million). Regular review of Company's operations by the BoD. Absence of an external audit since Company's incorporation. Financial position and control environment of the Company not measurable. Lack of clarity over initial paid-up capital of PKR 60 million. Absence of a regular, independent internal audit function. Absence of documented functional level roles and responsibilities. Absence of documented ToRs for Associates. 	<p>High</p> <p>High</p>	45-48
Financial management and accounting system	<ul style="list-style-type: none"> Regular preparation and review of bank reconciliation statements. Lack of financial statements. Lack of adequate books of account. Absence of approved basis of accounting and accounting policies in respect of revenue recognition, property plant and equipment, provision for doubtful receivables, taxation, provisions, etc. Absence of audited financial statements. Inadequate project accounting records. Absence of policies and procedures for key processes including project costing, asset management, document retention, preparation of financial statements, etc. Absence of an adequate fixed assets register. Inadequate staff strength for project accounting. Inadequate qualifications of key finance staff except for General Manager Finance. 	<p>High</p> <p>High</p>	51-54
Procurement system	<ul style="list-style-type: none"> Low value of administrative procurements at existing scale of operations. Instances of non-compliance with procurement policies and procedures. Absence of a dedicated procurement function in respect of procurement services contracts. Non-availability of relevant information in respect of procurement related service contracts. Lack of demonstrated experience in international procurements. Absence of legal vetting over contract management. 	<p>Medium</p> <p>Medium</p>	56-58

Executive summary

Risk assessment matrix – contd..

Core function	Key Observations and Conclusions	Rating	Page Ref
Human resource function	<ul style="list-style-type: none"> • Absence of a dedicated HR function despite significant size of staff base. • Inadequate HR policies and procedures. • Inadequate controls over staff utilization. • Absence of renewed employment contracts after execution of Business Transfer Agreement. • Instances of non-compliance with staff hiring procedures. • Missing HR records including personal files of project staff, missing C.Vs, reference checks, academic records in certain instances. • Lack of staff retention policy. • Non-availability of information with respect to staff turnover. • Regular in-house staff trainings. However, absence of outside trainings. • Absence of documentation in respect of formal performance evaluations of project staff (86% of total employees). • Expected staff redundancy after the close of projects by the end of FY 2011. 	High	61-64
Absorptive capacity	<ul style="list-style-type: none"> • While the Company (including the Firm) has completed various projects and has a portfolio of various on-going projects, its operations have been managed in an informal manner. Company's financial management systems, human resource management systems and monitoring and evaluation systems have significant capacity issues at the existing level of operations. • Critical information including actual share of the Company in on-going and completed projects, project management documentation maintained at project sites, existing financial position of the Company were not provided to us. Availability of the critical information may have affected our assessment of Company's absorptive capacity, however, effect of the required information on our assessment is not measureable at present. 	High	66-67
Monitoring and evaluation	<p>A. Project level management and monitoring</p> <ul style="list-style-type: none"> • Non-availability of project evaluation documentation. • Non-availability of supporting workings in respect of cost estimates. • Issues with respect to project planning raised in BoD meetings. • Coordination issues. • Absence of guidelines over contract management. • Absence of change logs. • Non-availability of minutes of meetings of BoM. • Issues pertaining to project quality. • Non-availability of staff evaluation reports at projects. • Lack of staff utilization reviews. 	High	71-74

Executive summary

Risk assessment matrix – contd..

Core function	Key Observations and Conclusions	Rating	Page Ref
Monitoring and evaluation ... contd.	B. Independent monitoring and evaluation <ul style="list-style-type: none"> • Various monitoring forums including BoD, Project Coordinators, BoM. • Absence of a dedicated monitoring and evaluation function. • Absence of defined policies and procedures. • Absence of tools and guidelines. • Absence of client satisfaction review mechanisms. 		
Overall assessment	Based on our assessment of respective core functions of the Company, the Company has been rated as a HIGH RISK entity for future funding.	<div>High</div>	

Please refer Annexure AD for risk rating matrix

Executive summary

Key findings

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: GOVERNANCE AND MANAGEMENT STRUCTURE			
External audit arrangements <ul style="list-style-type: none"> The Company has appointed M/s Kamran & Co., as its external auditors, however, its financial statements have not been audited since its incorporation in the year 2007. 	<ul style="list-style-type: none"> A true and fair presentation of Company's financial statements cannot be ensured in the absence of an independent audit of its financial records and operations. Reliance cannot be placed on the Company's financial statements as well as on its internal controls. A reliable assessment of Company's financial position is not possible in the absence of audited financial statements. 	<ul style="list-style-type: none"> External audit of the Company's financial statements should be conducted covering the period since its incorporation till the latest financial year end. 	48
Internal audit arrangements <ul style="list-style-type: none"> An independent internal audit function has not been established. Manager – Accounts and Audit is responsible for carrying out internal audits of project expenditure at specific instructions from the CEO. Regular internal audit is not being performed. Formal policies and procedures have not been developed for carrying out internal audit of Company's operations. 	<ul style="list-style-type: none"> Absence of an internal audit function may affect the quality of Company's control environment. 	<ul style="list-style-type: none"> An internal audit function, with adequate authority and independence, should be developed. The internal audit department should have a charter and should be staffed with adequately qualified professionals. 	48
Documentation of roles and responsibilities <ul style="list-style-type: none"> Functional level roles and responsibilities have not been documented. Further, ToRs for Associates have not been developed. 	<ul style="list-style-type: none"> Departmental performance evaluation and accountability may not be adequately carried out in the absence documented roles and responsibilities. 	<ul style="list-style-type: none"> Roles and responsibilities of each function and Associates should be documented and communicated to relevant staff. 	48
Paid-up capital of the Company <ul style="list-style-type: none"> We were not provided with evidence in respect of initial paid-up capital of PKR 60 million received by the Company. 	<ul style="list-style-type: none"> Lack of clarity over actual paid-up capital and consideration received by the Company. 	<ul style="list-style-type: none"> Relevant details should be provided. 	47

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: GOVERNANCE AND MANAGEMENT STRUCTURE			
Business transfer arrangement <ul style="list-style-type: none"> We were not provided with complete documentation in respect of Business Transfer Agreement. In the absence of complete documentation, an assessment cannot be made as to whether the business transfer arrangement has been completed and all legal and contractual requirements have been fulfilled. We remained unable to assess whether: <ul style="list-style-type: none"> a. All statutory and legal requirements have been complied; b. Whether the assets have been actually transferred in the Company's name; c. Whether all liabilities have been accurately and completely transferred to the Company; d. Whether shares have been accurately issued in consideration of transfer of assets and liabilities; etc. We were not provided information with respect to re-registration of the Firm after the death of one of its Partner. Accordingly, we cannot determine as to whether the Firm was legally registered at the time of business transfer arrangement. Further, claim of PKR 13.3 million (US\$ 0.16 million) payable to the legal heirs of the deceased partner was appearing in the accounts of the Firm for the FY 2010. Claims, if any, of the legal heirs of deceased partner on the Firm's assets and liabilities may affect their legal transfer to the Company. As per agreement all the duties, commitments and obligations, of every description both arising at the effective date and future including actual or contingent, arising out of any contract or otherwise of the firm shall be of the company. However, in the absence of audited financial statements, completion of transfer of the Firm's assets and liabilities as per agreement cannot be established. 	<ul style="list-style-type: none"> An accurate assessment with respect to the status of Company's operations, its project portfolio, its financial strength, etc. is not possible. 	<ul style="list-style-type: none"> A legal opinion should be obtained on the appropriateness of the business transfer arrangement. 	46-47

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: GOVERNANCE AND MANAGEMENT STRUCTURE			
Business transfer arrangement ... contd. <ul style="list-style-type: none"> As per schedule A & C to the Business Transfer Agreement, total assets of the Firm as at 30 June 2010, before the take over of business by the Company, amounted to PKR 196.55 million (US\$ 2.3 million). However, as per the unaudited balance sheet of the Firm as of 30 June 2010, total assets stood at PKR 141.23 million (USD 1.64 million), depicting a difference of PKR 55.32 million (USD 0.64 million) between the financial statements of firm at 30 June 2010 and the balance sheets shown in the agreement. The Company has not complied with the requirements of the Section 6 of the Companies (Issue of Capital) Rules, 1996 in respect of issue of shares for consideration otherwise than in cash. According to Section 6 of The Companies (Issue of Capital) Rules, 1996, a company may issue shares for consideration otherwise than in cash subject to the following conditions, namely: <ul style="list-style-type: none"> a. The value of assets shall be determined by a consulting engineer registered with the PEC and borne on the panel of at least two financial institutions as a valuer; b. The value of assets shall be reduced by depreciation charged on consistent basis; c. The goodwill and other intangible assets shall be excluded from the consideration; and d. Certificate from a practicing Chartered Accountant shall be obtained to the effect that the conditions of this section have been complied. A valuation of assets of the Firm was not carried out at the time of execution of business transfer agreement between the Company and the Firm in respect of fixed assets transferred from the Firm to the Company. Other certification requirements have also not been complied. 			46-47

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: GOVERNANCE AND MANAGEMENT STRUCTURE			
Business transfer arrangement ... contd. <ul style="list-style-type: none"> As per agreement the company has taken over the business of the firm however the contracts with clients have not been amended. A letter was issued by the company to all the existing clients of the firm that the firm has been converted into a private limited company by the name of National Development Consultants (Private) Limited, however the agreement states that the business operations and assets amounting to only Rs. 30 million (USD 0.35 million) are transferred to the company . Certain assets, as given in schedule A to the agreement are not appearing in the financial statements of the Firm, immediately before the business transfer. Company issued shares with a total value of PKR 30 million to the partners of the Firm. Share certificates in respect of the share issue were not provided to us. Accordingly, an assessment with respect to Company's compliance with the statutory requirements of the Companies Ordinance, 1984, cannot be made. We are not provided with the details of possible tax implications (capital gain/ loss) of the business transfer arrangement. In the absence of relevant tax details, we remained unable to assess whether tax implications of the arrangement were adequately accounted for in the books of account and all regulatory requirements were complied. 	<ul style="list-style-type: none"> An accurate assessment with respect to the status of Company's operations, its project portfolio, its financial strength, etc. is not achievable 	<ul style="list-style-type: none"> A legal opinion should be obtained on the appropriateness of the business transfer arrangement. 	46-47

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM			
Preparation of financial statements <ul style="list-style-type: none"> Complete books of account of the Company are not being maintained. Updated financial records only in respect of Head Office operations have been maintained. However, project books of account have not been updated. Accordingly, consolidated financial statements incorporating all operations of the Company and reflecting the books of account of the Company have not been prepared since inception of the Company. The Company has not adopted basis of accounting as well as accounting policies. In the absence of accounting policies, the Company has no defined set of stated accounting principles and policies in respect of following: <ul style="list-style-type: none"> a. Basis of accounting (accrual, cash basis); b. Revenue recognition; c. Costing of projects; d. Property, plant and equipment; e. Depreciation on property, plant and equipment; f. Provision against accounts receivables; g. Staff benefits h. Taxation; i. Contingencies and commitments; j. Transactions with related parties; etc. In the absence of proper books of account, accounting policies and basis of accounting and audited financial statements, an assessment cannot be made as to the actual size of: <ul style="list-style-type: none"> a. Property, plant and equipment; b. Accounts receivable; c. Deposits and advances; 	<ul style="list-style-type: none"> Non-compliance with statutory requirements may attract penal provisions and affect the Company's operations. Financial position of the Company may not be assessed in the absence of financial statements. A reliable assessment of Company's financial position is not possible in the absence of financial statements. 	<ul style="list-style-type: none"> Proper and updated books of account of the Company should be maintained. Basis of accounting and accounting policies should be developed and adopted by the BoD of the Company. Financial statements should be prepared in accordance with statutory requirements of the Companies Ordinance, 1984. 	52

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM			
Preparation of financial statements ... contd. <ul style="list-style-type: none"> e. Cash and bank balances; f. Other assets; g. Paid-up share capital and reserves; h. Long term and short term borrowings; i. Claims payable by the Company; j. Other liabilities; k. Accruals; l. Tax liabilities/ assets; m. Contingencies and commitments; n. Transactions with related parties; o. Revenue; p. Direct and administrative costs; q. Financial charges; r. Tax expense; s. Gross profit and net profit; etc. 			
Structure/ segregation of duties <ul style="list-style-type: none"> ● Finance and Income Tax department is not appropriately structured. Duties and responsibilities are not adequately segregated. 	<ul style="list-style-type: none"> ● The existing arrangement may dilute controls to ensure a mechanism of checks and balances within the Company. ● Risk of inappropriate utilization of financial resources. 	<ul style="list-style-type: none"> ● Adequate segregation of duties should be introduced within the existing work flow and procedures. 	51

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM			
Adequacy of staff strength <ul style="list-style-type: none"> Project accounting staff strength is not considered adequate on the basis of existing level of operations. Additional staff will be required in case of additional work load due to a new project. 	<ul style="list-style-type: none"> Inadequate staff strength may affect the quality and efficiency of accounting and finance activities. 	<ul style="list-style-type: none"> Sufficient staff should be hired for financial management and accounting function. 	51
Sufficiency of skills sets/ relevant qualifications <ul style="list-style-type: none"> Key accounting and finance personnel have adequate relevant experience, however, they do not hold adequate professional qualifications. 	<ul style="list-style-type: none"> Finance function may not be able to adequately discharge its responsibilities pertaining to day-to-day financial management as well as periodic financial reporting and progress evaluation. 	<ul style="list-style-type: none"> Finance staff with adequate qualifications and experience should be hired. 	51-52
Policies and procedures <ul style="list-style-type: none"> Detailed description of roles and responsibilities of the finance and income tax department, in respect of project costing, asset management, payroll preparation, project invoicing, preparation of financial statements, budget review and monitoring, document retention, etc. have not been specified in the finance manual. 	<ul style="list-style-type: none"> Inadequate guidance over key processes. Lack of control over execution of financial transactions. Possibilities of errors due to extended discretion by the staff. 	<ul style="list-style-type: none"> Policies and procedures in respect of key processes should be documented, approved and implemented. 	52
Client invoicing and project costing <ul style="list-style-type: none"> Formal policies and procedures in respect of client invoicing and project costing have not been developed. We were not provided the basis/ working for charging of overhead costs to the project. 	<ul style="list-style-type: none"> Project invoicing and costing may not be accurately carried out. 	<ul style="list-style-type: none"> Formal policies and procedures should be developed, approved and implemented in respect of client invoicing and project costing. 	52-53

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM			
Payroll preparation <ul style="list-style-type: none"> Salary reconciliations are not being prepared. Consolidated time sheets are not being prepared. Separate time sheets are prepared by project staff deputed at different projects. 	<ul style="list-style-type: none"> Inaccurate preparation of payrolls and charging of project costs. 	<ul style="list-style-type: none"> Payroll reconciliations should be regularly prepared and reviewed. Consolidated time sheets specifying projects should be prepared. 	53
Compliance with payment procedures <ul style="list-style-type: none"> During our review of the previous internal audit reports, it was observed that in certain cases supporting documents were not attached with the vouchers (Please refer Annexure U for detailed description of internal audit observations). 	<ul style="list-style-type: none"> Risk of non-compliance of payment controls may result in un-authorized/ inappropriate utilization of cash resources. 	<ul style="list-style-type: none"> Payment policies and procedures should be complied in letter and spirit. 	53
Assets management <ul style="list-style-type: none"> Fixed assets have not been coded, accordingly, a fixed assets register has not been appropriately maintained. Insurance coverage against Company's assets has not been obtained. The fixed assets register is not updated regularly. A reconciliation of physical assets with accounting records is not being performed. 	<ul style="list-style-type: none"> The Company may not be able to effectively manage its resources. 	<ul style="list-style-type: none"> Fixed assets records should be updated in accordance with the requirements of Companies Ordinance, 1984, to ensure appropriate and updated monitoring of their usage. 	53-54
Budgets <ul style="list-style-type: none"> Company level consolidated budgets are not being prepared. Formal documentation of policies and procedures regarding budget reviews has not been developed. 	<ul style="list-style-type: none"> Inadequate control over budgeting and its utilization. 	<ul style="list-style-type: none"> Company level consolidated budgets should be prepared and reviewed on a periodic basis. Detailed policies and procedures in respect of budget preparation and review should be developed, approved and implemented. 	54

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: PROCUREMENT SYSTEM			
Policies and procedures <ul style="list-style-type: none"> Detailed policies and procedures with respect to key procurement activities including procurement services provided to clients, procurement of technical assistance/ consultants, contract administration/ management and other relevant areas have not been developed. 	<ul style="list-style-type: none"> Procurement activities may not be adequately guided. The Company may not be able to obtain best value for its resources. 	<ul style="list-style-type: none"> Detailed policies and procedures with respect to key procurement activities should be developed. 	56
Dedicated procurement function <ul style="list-style-type: none"> Company provides assistance to clients regarding procurement of contractors and preparation of tender/bid documents. Currently, the Company has 10 ongoing projects in which procurement services are required under the contract, however, a dedicated procurement function has not been established 	<ul style="list-style-type: none"> Company's procurement services may not be able to meet client requirements in the absence of specialized staff with dedicated focus at provision of procurement related services to Company's clients. 	<ul style="list-style-type: none"> A dedicated procurement function, with adequately qualified staff, in respect of procurement services being offered by the Company should be established. 	56-57
Compliance with laws and regulations/ policies and procedures <ul style="list-style-type: none"> Staff trainings on compliance with laws and regulations have not been carried out during last two years. Certain instances were identified where Company's policies and procedures were not complied (Please refer Annexure T for detailed description of observations). 	<ul style="list-style-type: none"> This may indicate lack of adequate procedures on overall procurement process management and execution. 	<ul style="list-style-type: none"> Capacity building of staff on compliance with laws and regulations/ Company's policies and procedures should be carried out. 	57
Adequacy of experience <ul style="list-style-type: none"> Further, we were not provided with the detail of resources available/ employed by the Company for the provision of procurement services and details of services provided. However, we understand that the Company has not carried out international procurements. Accordingly, it does not possess demonstrated experience in carrying out international procurements. 	<ul style="list-style-type: none"> Procurement activities may not be adequately carried out by appropriately skilled staff. 	<ul style="list-style-type: none"> Detail of resources available to the Company for the provision of procurement services should be provided. 	57-58

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: PROCUREMENT SYSTEM			
Adequate experience/ staff strength <ul style="list-style-type: none"> The Company is providing assistance in procurement of contractors and preparation of bidding documents. In the absence of required information (e.g. resources available, CVs and JDs of personnel involved in the provision of procurement services and quantum and nature of services provided in the last two years), adequacy of experience/ strength cannot be assessed. 	<ul style="list-style-type: none"> Company's procurement services may not be able to meet client requirements in the absence of specialized staff with dedicated focus at provision of procurement related services to Company's clients. 	<ul style="list-style-type: none"> Procurement capacity of the staff may have to be strengthened in case of procurement related services. 	57-58
Legal arrangement <ul style="list-style-type: none"> The Company has no formal arrangement for obtaining legal advice for procurement assistance and preparation of bidding documents services. 	<ul style="list-style-type: none"> The Company may be exposed to legal risks in the absence of due vetting by a legal expert. 	<ul style="list-style-type: none"> Formal legal services should be obtained in respect of client contracts pertaining to procurement services. 	58

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: HUMAN RESOURCE FUNCTION			
Dedicated HR function <ul style="list-style-type: none"> The Company has a staff base of 782 employees, however, a dedicated Human Resource department has not been established for managing Company's HR functions. 	<ul style="list-style-type: none"> Company may not be able to effectively manage its human resource activities. 	<ul style="list-style-type: none"> A dedicated human resource function should be established. 	61
Policies and procedures <ul style="list-style-type: none"> HR policies and procedures manual lacks detailed description of policies and procedures in respect of staff hiring, performance evaluation, etc. 	<ul style="list-style-type: none"> HR activities may not be adequately guided. 	<ul style="list-style-type: none"> HR policies and procedures manual should be reviewed and updated to include guidance/ procedures in respect of all HR related activities. 	61-62
Staff utilization <ul style="list-style-type: none"> Staff utilization plans/ reports are not being developed. 48% of total project staff has been allocated to only three projects, having total project value of US\$ 3.79 million (which is 3.3% of total project value). (Please refer Annexure P for detailed description of staff allocation). 51 project staff (7.5% of total project staff) has been allocated to suspended projects. The Company is expected to have significant idle staff as 28 out of 38 ongoing projects, with 463 employees, are expected to be completed by the end of FY 2011. 	<ul style="list-style-type: none"> The Company may not be able to obtain best value for its resources. 	<ul style="list-style-type: none"> Staff utilization plans and reports should be developed and reviewed by appropriate level of management. 	63
Staff retention <ul style="list-style-type: none"> Formal retention policy has not been developed by the company. Further, we were not provided with the details of staff turnover due to lack of data maintained at head office. 	<ul style="list-style-type: none"> Operational disruptions may be faced due to staff turnover. 	<ul style="list-style-type: none"> Staff retention policy shall be developed. 	63

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: HUMAN RESOURCE FUNCTION			
Staff contracts <ul style="list-style-type: none"> Company's employees were transferred from the Firm at the time of execution of Business Transfer Agreement. However, formal modification of employment contracts has not been undertaken to ensure that all employees have contractual arrangement with the Company. 	<ul style="list-style-type: none"> Inadequate contractual arrangements with employees. Resultantly, the Company may not be able to enforce terms and conditions of employment contracts. 	<ul style="list-style-type: none"> Employment contracts should be modified and executed with the Company. 	63
Adequacy of skills set and experience <ul style="list-style-type: none"> On an overall basis staff qualification, skill set and experience of key governance and technical staff is considered adequate, however, key management staff at head office level responsible for Human Resource and Finance function does not possess adequate qualification and skills set (Please refer Annexure R for detailed description of staff profiles). 	<ul style="list-style-type: none"> Company's projects may not be efficiently carried out. 	<ul style="list-style-type: none"> A review of adequacy of skills set should be carried out. 	62
Staff accountability and performance evaluation <ul style="list-style-type: none"> Staff accountability and performance evaluation mechanism is not considered adequate on the basis of following observations: <ul style="list-style-type: none"> a. Job description of key staff at head office have been developed whereas standardized job description of associates and staff deputed at projects have not been developed. b. Inappropriate eligibility requirements in respect of finance positions (Please refer Annexure R for details). c. Performance evaluation framework has not been developed. No performance evaluation of project staff (which is 86% of total staff base) is being performed. However, we are informed that project staff is evaluated by respective managers. 	<ul style="list-style-type: none"> The Company might not be able to adequately evaluate its employees. Inadequate controls over staff accountability and performance evaluation. Non-compliance with policies and procedures. 	<ul style="list-style-type: none"> Staff accountability and performance evaluation mechanism should be developed. 	62-63

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: HUMAN RESOURCE FUNCTION			
d. Certain instances were identified where employee designations were not in accordance with approved pay scales of the Company. (Please refer Annexure AB for details).			
Staff hiring <ul style="list-style-type: none"> Following observations were made during the evaluation of Company's staff hiring processes and employee record. <ul style="list-style-type: none"> Mechanism for HR planning has not been developed; Policy/ procedures in respect of hiring of consultants have not been developed; Hiring policy does not require a hiring requisition to be generated by the relevant department once a post is vacant; Interview sheets were not prepared; Copies of certificates/ degrees as an evidence of educational qualifications were not available in personal files; Documentation with respect to reference checks are not being maintained in the personal files; Company does not have a staff utilization plan. 	<ul style="list-style-type: none"> The Company may not be able to employ appropriate human resource. Non-compliance with staff hiring procedures. 	<ul style="list-style-type: none"> Staff hiring procedures should be complied. 	62

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION – A: AT PROJECT LEVEL)			
Project evaluation <ul style="list-style-type: none"> We were not provided with documentation pertaining to carrying out feasibility studies on prospective projects. Accordingly, we remained unable to assess whether appropriate controls are in place and are being implemented in respect of: <ul style="list-style-type: none"> a. An assessment of whether the Company has adequate human and infrastructural resources prior to entering into a project; b. An assessment of potential risks associated with the project; c. An assessment of likely affect of the project on the existing and future strategic direction of the Company; d. An assessment of likely effect of the project on the existing and future financial resources of the Company. 	<ul style="list-style-type: none"> Inability to assess controls and procedures in respect of project evaluation. 	<ul style="list-style-type: none"> Relevant information should be provided. 	71
Project planning and coordination <ul style="list-style-type: none"> We were not provided with project evaluation documentation. In the absence of project evaluation documentation, we remained unable to assess as to whether project plans are adequately linked with a detailed project evaluation exercise. We were not provided supporting workings in respect of cost estimates prepared by the Company in respect of sample projects identified during the course of pre-award assessment. It was raised in a BoD meeting that FATA Small Dams Project was not planned well and was currently running in loss. 	<ul style="list-style-type: none"> Inability to assess controls and procedures in respect of project planning. 	<ul style="list-style-type: none"> Relevant information should be provided. 	71

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION – A: AT PROJECT LEVEL)			
Project planning and coordination ... contd. <ul style="list-style-type: none"> Coordination issues were identified during our review of the Quality Management Review reports prepared by the Company. 	<ul style="list-style-type: none"> Inefficient project implementation. 	<ul style="list-style-type: none"> Coordination mechanism should be established. 	71
Contract management <ul style="list-style-type: none"> Guidelines in respect of contract management have not been developed. Change logs are not being maintained. 	<ul style="list-style-type: none"> Inadequate guidance and accountability over contract management activities. 	<ul style="list-style-type: none"> Guidelines in respect of contract management should be developed. Change logs should be maintained. 	72
Compliance with project timelines <ul style="list-style-type: none"> Based on our review of the minutes of BoD meetings, we identified certain instances where issues with respect to project timelines were identified (please refer Annexure N for detailed description). 	<ul style="list-style-type: none"> Project delays. 	<ul style="list-style-type: none"> Project timelines should be complied. 	73
Progress reviews by project management <ul style="list-style-type: none"> Project manager along with BOM is responsible for monitoring & evaluation at the project. However, Minutes of meeting of BOM were not shared with us by the management. Issues regarding project quality were also raised. In few instances, the client refused to pay the consultants for work done due to disputes over deliverables and/or quality of works. (Please refer annexure N for details). No formal mechanism is in place for follow up of issues identified during project implementation. 	<ul style="list-style-type: none"> Inability to assess progress review by the BoM. Client issues. Inadequate project management. 	<ul style="list-style-type: none"> Minutes of meetings should be provided. Client satisfaction analysis should be performed. Follow up mechanism should be developed and implemented. 	73

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION – A: AT PROJECT LEVEL)			
Management of project staff <ul style="list-style-type: none"> Performance evaluation reports with respect to project staff were not shared with us. Accordingly, an assessment of adequacy of performance evaluation at project level is not possible. Staff utilization plan under the project was requested for the selected sample projects however it was not provided. Human resource management analysis/reports along with details of hiring of staff made under the project were requested for the selected sample projects were not provided. 	<ul style="list-style-type: none"> Inefficiencies in project implementation. Inadequate monitoring of project activities. Inappropriate utilization of human resource. 	<ul style="list-style-type: none"> Performance evaluation of project staff should be carried out. Staff utilization surveys should be carried out both at the project inception and implementation stages. 	73

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION (B: INDEPENDENT MONITORING AND EVALUATION)			
Independent monitoring and evaluation <ul style="list-style-type: none"> An independent monitoring and evaluation function has not been established. Accordingly, no formal mandate of the department has been developed. Further, no staff has been dedicated for monitoring and evaluation of Company's operations. 	<ul style="list-style-type: none"> Monitoring and evaluation activities may not be adequately carried out. 	<ul style="list-style-type: none"> An independent monitoring and evaluation function should be established. 	73

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION (B: INDEPENDENT MONITORING AND EVALUATION)			
Policies and procedures <ul style="list-style-type: none"> ● Policies and procedures in respect of M&E have not been developed, accordingly, no standard reporting and other requirements are defined. However, reporting requirements pertaining to project progress under each project are included in respective contracts with the clients. ● Roles and responsibilities of M&E function have not been defined. 	<ul style="list-style-type: none"> ● M&E activities may not be adequately guided. 	<ul style="list-style-type: none"> ● Policies and procedures with respect to monitoring and evaluation should be developed and implemented. 	74
Tools and guidelines <ul style="list-style-type: none"> ● Tools and guidelines for carrying out independent monitoring and evaluation of project activities have not been developed. 	<ul style="list-style-type: none"> ● M&E activities may not be adequately guided. 	<ul style="list-style-type: none"> ● Policies and procedures with respect to monitoring and evaluation should be developed and implemented. 	74
Adequacy of staff <ul style="list-style-type: none"> ● A dedicated staff has not been assigned for carrying out monitoring and evaluation function. Accordingly, an assessment of adequacy of staff experience and skill set could not be carried out. 	<ul style="list-style-type: none"> ● The Company may not be able to efficiently and effectively carry out its roles and responsibilities under projects. 	<ul style="list-style-type: none"> ● Adequate and appropriate staff should be dedicated for monitoring and evaluation function. 	74

Executive summary

Key findings – contd..

Issue	Implication	Recommendation	Key analysis
CORE FUNCTION AREA: MONITORING AND EVALUATION (B: INDEPENDENT MONITORING AND EVALUATION)			
Client satisfaction analysis <ul style="list-style-type: none"> • A mechanism for reviewing client satisfaction has not been developed. • Certificate of completion of any project are not received by the company. • Correspondence with clients, in respect of projects selected on random selection basis, was not provided. • Issues regarding delays in receipts of dues were frequently raised in the meeting of the BoD. (Please refer annexure N for details). • It was observed that few projects were suspended due to non payment by the client. 	<ul style="list-style-type: none"> • Client issues. • Delays in payments. 	<ul style="list-style-type: none"> • Client satisfaction analysis should be performed. 	74

Executive summary

Summary of award obligation conditions

Pre-obligation conditions

- External audit of the Company's financial statements, covering period since its incorporation till latest financial year end, should be arranged from a reputed firm of Chartered Accountants in Pakistan.
- Legal opinion should be obtained as to whether all legal requirements with respect to the Business Transfer Arrangement have been duly carried out and completed, and are appropriately reflected in the financial statements of the Company.

Post-obligation conditions

Following post-obligation conditions were identified:

Strengthening of governance structure

- Develop internal audit policy framework, manual and SOPs.
- Revisit organizational structure and/or reporting lines to help achieve independence of risk-based internal audit function.
- Hire suitably qualified staff and/or revise roles and responsibilities of current staff and provide necessary trainings on internal audit

Capacity building of finance department

- Hire staff that has relevant qualification and/or experience in Finance function or revisit roles and responsibilities to ensure segregation of duties in Finance function..
- Develop and implement Accounting and finance policies and procedure ensuring among other segregation of duties within accounting function.
- Devise SOPs for financial recordkeeping and book-keeping for complete audit trail on commitments/obligations and spending of funds from different sources.
- Provide training to finance staff on budgeting, accounting, financial management, financial reporting and on fixed asset management.

Strengthening of human resource function

- A separate human resource function should be established
- Develop and implement human resource policies and procedures
- Provide training to HR staff on HRM including record-keeping, performance evaluation management and staff development.

Executive summary

Summary of award obligation conditions – contd.

Post-obligation conditions ... contd.

Strengthening of procurement processes

- Modify procurement policies and procedures in order to have more elaborated guidance on procurement, contract management processes and ensuring adequate segregation of duties within procurement function.

Strengthening of monitoring and evaluation mechanism

- Develop framework, policy manual and detailed SOPs for institution level and project level M&E
- Revisit organizational structure and/or reporting lines to help achieve optimal independence of M&E.



MAPPING EXERCISE

Mapping exercise

Summary of mapping activity

Recommendation	Management initiative	Action point
Strengthening of governance structure <ul style="list-style-type: none"> An internal audit function, with adequate authority and independence, should be developed. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Internal audit function should be established. The internal audit function should employ adequate staff with appropriate qualifications. Scope of internal audit department should extend to entire operations of the Company with direct reporting line to the top management.
Capacity building of finance department <ul style="list-style-type: none"> The finance department should be strengthened in terms of its HR capacity. Appropriately qualified finance staff should be hired with appropriate sub-ordinate level staff. Accounting and finance manual should be developed and implemented. Adequate segregation of duties within the accounting function should be ensured. Compliance with policies and procedures should be ensured. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> An analysis of the existing staff capacities of the finance staff should be carried out. On the basis of analysis, job descriptions and eligibility criteria should be established. The existing structures as well as policies and procedures should be modified in order to ensure appropriate segregation of duties.
Strengthening of human resource department <ul style="list-style-type: none"> A dedicated Human Resource function should be established. Human resource policies and procedures should be developed and implemented in letter and spirit. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> A dedicated human resource function, with sufficient and appropriate staff, should be developed. Policies and procedures should be revised to adequately provide guidance over human resource activities.
Strengthening of procurement function <ul style="list-style-type: none"> Policies and procedures should be modified to provide adequate guidance over contract execution and contract management. Adequate segregation of duties within the procurement function should be ensured. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Policies and procedures should be revised to adequately provide guidance over human resource activities.

Mapping exercise

Summary of mapping activity

Recommendation	Management initiative	Action point
Strengthening of monitoring and evaluation mechanism <ul style="list-style-type: none"> • An independent monitoring and evaluation function, with adequate and appropriate staff, should be developed. • Policies and procedures with respect to monitoring and evaluation, duly supported by relevant tools and guidelines, should be developed. • Regular monitoring and evaluation of projects should be carried out by the dedicated monitoring and evaluation teams. 	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • A dedicated monitoring and evaluation function, with sufficient and appropriate staff, should be developed. • Policies and procedures with respect to monitoring and evaluation should be developed. • Monitoring and evaluation plans should be developed and implemented.



INTRODUCTION TO ORGANIZATION

Introduction to organization

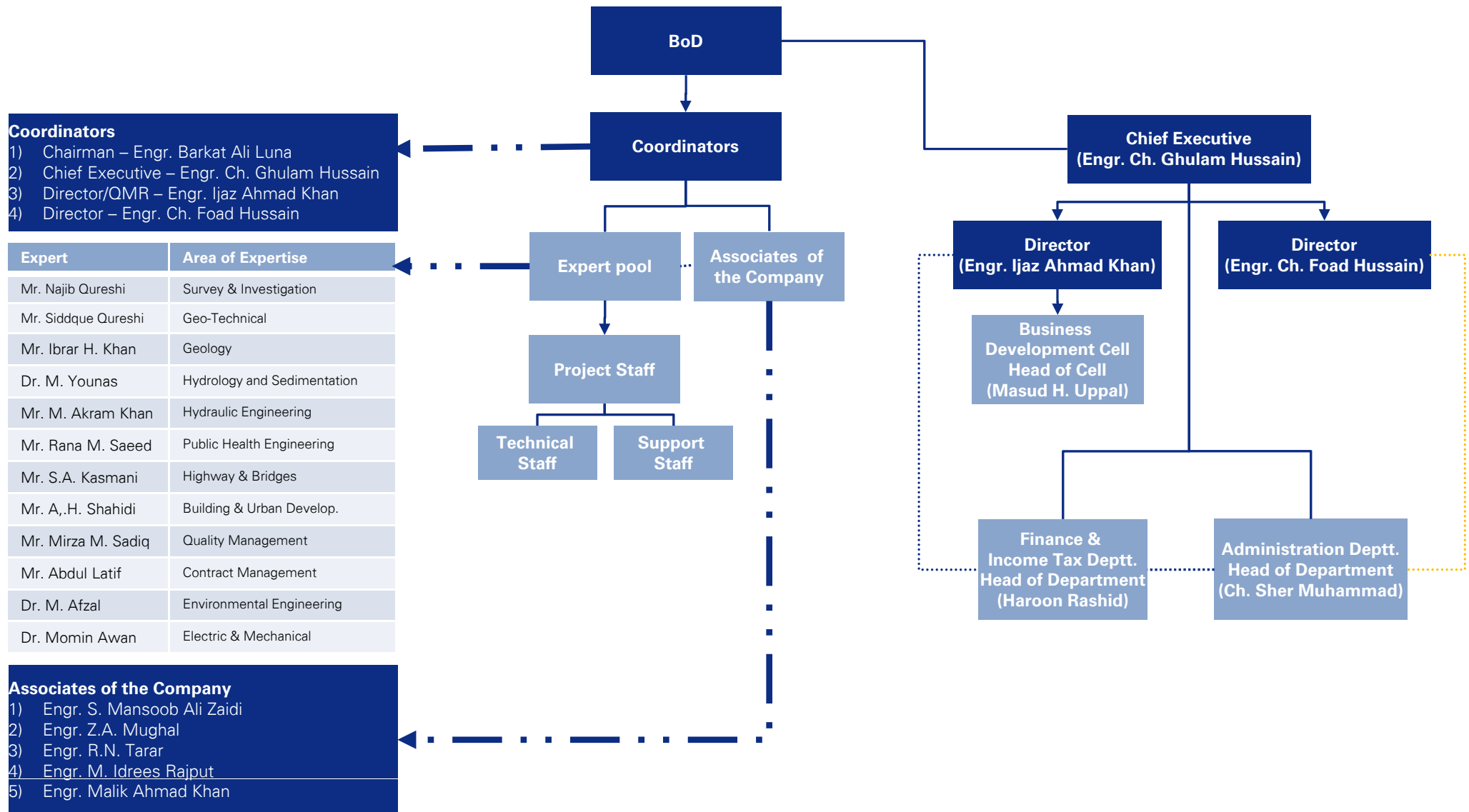
Legal status/ organizational profile – contd..

A. Legal status and history

- NDC's head office is located at Lahore and has project offices at various project locations.
- The Company provides various engineering consulting services related to engineering and resource development areas. Key service lines of the Company are as follows:
 - a. Investigation and planning;
 - b. Geological, geo-technical and soil surveys;
 - c. Computer aided designing of engineering projects;
 - d. Assistance in tendering;
 - e. Assistance in implementation of engineering projects;
 - f. Preparation of operational manuals; etc.
- Core competence areas of the Company are as follows:
 - a. Irrigation and drainage;
 - b. Agriculture;
 - c. Water resources development;
 - d. River training and flood protection works;
 - e. Surveys, topographic and socio-economic;
 - f. Geo-technical investigation;
 - g. Physical modeling of hydraulic structures
 - h. Dams and hydropower;
 - i. Forestry and rural sociology;
 - j. Project management and construction supervision;
 - k. Roads and bridges;
 - l. Environmental and PHE;
 - h. Tunnels;
 - i. Residential buildings and urban development;
 - j. Airports and seaports.
- Since the commencement of operations in July 2010, the Company has entered into eight projects. Seven new projects relate to Irrigation whereas one project relates to building design and construction supervision (please refer Annexure P for detailed description of on-going projects).
- Since takeover of the business, the Company is part of thirty eight on-going projects with a total contract size of PKR 9.9 billion (US\$ 115.12 million).
- Thirty four out of thirty eight projects are being implemented under joint venture arrangements with total JV contract size of PKR 9.76 billion (US\$ 113.51 million).
- Out of the thirty four on-going projects, the Company is acting as Lead partner on twenty one projects with a total JV contract size of PKR 2.04 billion (US\$ 23.77 million).
- We were not provided with Company's share in the overall contract size. Accordingly, we remained unable to identify and assess the overall size of contracts executed by the Company/ firm.
- The Company is solely executing four projects with a total contract value of PKR 173 million (US\$ 2.01 million) (Please refer Annexure P for further details).
- The Company has obtained registration with PEC under the Pakistan Engineering Council Act, 1975.
- As per details provided to us, the Company has booked revenue amounting to PKR 472.81 million (USD 5.50 million) for the FY 2011 with an average monthly revenue of PKR 39.4 million (USD 0.46 million).
- The Company has a staff resource of 782 employees out of which 108 employees are related with General Administration. Project related staff of 674 employees (86% of total number of employees) comprise of 409 technical staff and 265 support staff (detailed analysis provided in Human Resource section of the report).

Introduction to organization

Management and organizational structure – organizational structure



Introduction to organization

Financial information – unaudited

Financial Statement Analysis				US\$
	NDC Partnership 30 June 2010	NDC Partnership 1 July 2010 *	NDC 1 July 2010 *	NDC Consolidated 1 July 2010 **
CURRENT ASSETS				
Cash in hand	314	-	627	627
Bank Balances	818,539	559,771	275,480	835,251
Term Deposits	654,097	654,097	-	654,097
Securities/Deposits	3,081	3,081	-	3,081
Advances / Staff Imprests	326	581	-	581
Income Tax Refunds	28,380	28,380	-	28,380
Retention Money Receivables	-	53,545	-	53,545
Advances to PM/JV	-	563,334	-	563,334
	1,504,737	1,862,789	276,107	2,138,896
FIXED ASSETS				
Furniture, Fixtures & Fittings	10,924	-	10,924	10,924
Office Equipments	28,331	-	29,256	29,256
Motor Vehicles	79,914	56,960	22,955	79,914
Electric Diesel Generators	9,596	-	9,596	9,596
Land	16,845	16,845	-	16,845
	145,611	73,805	72,730	146,535
TOTAL	1,650,348	1,936,594	348,837	2,285,431
LIABILITIES				
Social Charges payable	-	128,719	-	128,719
Bonus Payable (for 2009-10)	11,623	122,665	-	122,665
Payable to Legal Heirs	155,476	155,476	-	155,476
Running Projects of the Firm	(217,252)	-	-	-
Mob. Adv./ R. Funds Payables	-	172,364	-	172,364
Payable to JV & Others	-	5,707	-	5,707
	(50,153)	584,930	-	584,930
PARTNER CAPITAL				
Engr. Barkat Ali Luna	566,968	450,688	87,209	1,700,501
Engr. Ch. Ghulam Hussain	567,408	451,129	87,209	
Engr. Ijaz Ahmed Khan	566,126	449,847	87,209	
Engr. Ch. Foad Hussain	-	-	87,209	
	1,700,501	1,351,664	348,837	1,700,501
TOTAL LIABILITIES & CAPITAL	1,650,348	1,936,594	348,837	2,285,431
*Balance sheet made at the date of transfer of assets by NDC partnership to NDC.				
**Consolidated balance sheet at the date of transfer of assets, showing total assets, liabilities & Capital of NDC partnership and NDC				

Introduction to organization

Financial information – unaudited - contd..

- During last three years, the Company has completed 18 projects which includes 8 projects with total consultancy fee of PKR 957 million (US\$ 11.13 million) completed in 2011, 5 projects with total consultancy fee of PKR 667 million (US\$ 7.76 million) completed in 2010 and 5 projects with consultancy fee of PKR 104 million (US\$ 1.21 million) completed in 2009 (Please refer Annexure O for details).
- During FY 2011, the Company entered into eight agreements which includes 7 projects related to irrigation and 1 project related to buildings. Out of total 8, 7 projects have been initiated with 1 yet to be started.
- As per management information, the Company has booked revenue amounting to PKR 472.81 million (US\$ 5.50 million) for the FY 2011 with an average monthly revenue of PKR 39.4 million (US\$ 0.46 million).
- Revenue is based on actual man months input by the employees of NDC working at the projects.
- As of July 2011, the Company has un-audited total receivables amounting to PKR 184.48 million (US\$ 2.15 million). Out of total receivables, PKR 78.43 million (US\$ 0.91 million) are outstanding for more than six months, PKR 38 million (US\$ 0.44million) are outstanding up to 90 days and remaining are due from less than 60 days.



CORE FUNCTIONS ANALYSIS

Governance and Management Structure

Core functions analysis

Governance and management structure

Overview of governance and management structure

1. Legal entity

- National Development Consultants (Private) Limited was established in the year 2007, under the Companies Ordinance, 1984 as a private limited company. Registered office of the Company is situated at 165-M, Gulberg-III, Lahore.

2. History

- NDC Regd. Partnership was registered in 1977 under the Partnership Act, 1932 with five Partners namely Engr. Barkat Ali Luna, M. Aman-ul-haq Enver, Engr. Ijaz Ahmad Khan and S.N.H. Mashhadi.
- During 2001, the partnership was dissolved due to death of one of its partners, Engr. S.N.H. Mashhadi. After the dissolution, the partnership was re-constituted with five partners including four partners from previous partnership and Mrs. Afifa parveen Mashhadi, legal heir of (late) Engr. S.N.H. Mashhadi, in the following profit and loss ratios applicable for the projects signed after 28 February 2001:

– Engr. Barkat Ali Luna	20.75%
– Engr. M. Aman-ul-Haq Enver	20.75%
– Engr. Ch. Ghulam Hussain	20.75%
– Engr. Ijaz Ahmed Khan	20.75%
– Mrs. Afifa Parveen Mashhadi	17.00%

(Attorney of legal heirs of (Late) Engr. S.N.H. Mashhadi)
- During 2007, the partnership was dissolved due to retirement of partner Engr. M. Aman-ul-Haq Enver and re-constituted with remaining four partners on 26 February 2007. This partnership is still in existence. Major terms and conditions of the partnership are as follows.

- Continue the business of the firm with the property of the firm without any final settlement of account of the legal heirs of (Late) Engr. S.N.H. Mashhadi. It was decided and agreed that the heirs of (Late) Engr. S.N.H. Mashhadi shall be entitled to share, with the working partners, the profit/loss accruing from projects signed prior to February 02, 2001 as per the following ratios:

– Engr. Barkat Ali Luna	27.67%
– Engr. Ch. Ghulam Hussain	27.67%
– Engr. Ijaz Ahmed Khan	27.67%
– Mrs. Afifa Parveen Mashhadi	17.00%

(Attorney of legal heirs of (Late) Engr. S.N.H. Mashhadi).
- It was decided that on completion of the projects signed prior to February 02, 2001, share of the legal heirs of (Late) Engr. S.N.H. Mashhadi shall be determined and paid to them.
- The profit and loss of the accruals of the projects signed after February 02, 2001 and continuing beyond December 31, 2006 and that of the projects signed after December 31, 2006 are shared by the working partners in the following ratios:

– Engr. Barkat Ali Luna	33.33%
– Engr. M. Aman-ul-Haq Enver	33.33%
– Engr. Ch. Ghulam Hussain	33.33%
- Partners among themselves constituted a Board. Engr. Barkat Ali Luna is the Chairman while Engr. Ch. Ghulam Hussain is the Managing Partner and Engr. Ijaz Ahmad Khan is the Partner of the Firm.
- This partnership is still in existence.
- In 2007 existing partners with an additional member incorporated NDC (Pvt.) Ltd. Company under Companies Ordinance, 1984.

Core functions analysis

Governance and management structure – contd..

- The Company incorporated was not in operation from its incorporation in 2007 till June 2010. On 1st July 2010 the operations of the partnership was taken over by the company through an agreement dated 1st July 2010. As per the agreement business of the “Partnership” M/s. National Development Consultants was taken over by the “Company” M/S. National Development Consultants (Pvt.) Ltd. including Assets, Liabilities, Goodwill, and rights, belongings or appurtenances as per details provided in Annexure M.

3. Governance and management structure

i) Board of directors (BoD)

- Organizational structure of the Company is headed by the BoD, which is responsible for overall strategic management. A team of four coordinators, comprising of members of BoD, has been established under the BoD, which is responsible for the overall management of Projects. Each coordinator is assigned projects on the basis of core competence and experience.
- BoD is responsible for managing the affairs of the Company. Primary responsibilities of the BoD include: a) establishment of policies and procedures; b) approval of projects/ service line areas; c) approval of financial statements; d) proposing dividend payouts e) authorizing capital expenditure; f) approve annual budgets etc.
- The BoD of the company consist of four members. Following is the detail of company's BoD as well as respective shareholding of the BoD member:

Name	Designation	Shareholding
Mr. Ch. Ghulam Hussain	CEO/Director	25 %
Mr. Mian Barkat Ali Luna	Chairman/Director	25 %
Mr. Ijaz Ahmad Khan	Director	25 %
Mr. Ch.Foad Hussain	Director	25 %

Source: Form – A dated October, 2010

- Please refer Annexure I and J for synopsis of Company's Memorandum of Association and Articles of Association.
- A pool of experts, comprising of twelve engineers, has been assembled. Members of the expert pool are assigned to the projects on the basis of expertise required in a particular project.
- Company's organizational structure is bifurcated into: a) Operations; and b) General Administration divisions.

ii) Operations

- Operations division operates as a single unit with a work force comprising of technical and support staff. Employees are allocated to projects on the basis of project requirements.
- Project Coordinators are responsible for oversight of individual projects allocated to them and are assisted by a group of associates of the Company.
- Members of expert pool are deputed on the projects and are responsible for implementation of project activities. Members of expert pool are reportable to respective project coordinator and are supported by a team of project technical and support staff.
- The expert pool consists of the following expertise areas:
 - 1) Survey & Investigation;
 - 2) Geo-technical;
 - 3) Hydrology and Sedimentation;
 - 4) Hydraulic Engineering;
 - 5) Irrigation/Water Resources;
 - 6) Dams/Hydropower;
 - 7) Public Health Engineering;
 - 8) Highway & Bridges;

Core functions analysis

Governance and management structure – contd..

- 9) Quality Management;
- 10) Contract Management;
- 11) Environmental Engineering; and
- 12) Electrical & Mechanical.

iii) General Administration

- General administration division is operated through three departments, discussed as follows:

- **i) Administration department:** Administration department is responsible for managing administrative affairs of the organization including human resource and procurement functions. The department is headed by chief of administration who reports to CEO and is supported by a team of 20 employees including 2 managers, 4 deputy managers, 2 assistant managers and 12 support staff (Please refer procurement and HR sections for details).

- **ii) Finance and Income Tax department:** Finance and income tax department is responsible for financial and taxation matters. It is headed by General Manager – Finance who reports CEO and is supported by a team of 20 employees including 3 managers, 1 secretary/tax consultant, 1 assistant manager, 12 assistant accountants and 3 other support staff. (Please refer finance section for details).

- **iii) Business Development Cell:** Business development cell is charged with marketing of Company's operation and client contact, preparation of business strategy plans and preparation of proposals for business expansion. The Cell is headed by Advisor for Business Development who reports to Director – QMR and is supported by Chief of Business Development and 5 support staff. (Please refer annexure L for detailed structure of Business Development Cell).

4 Assessment of governance and management structure

4.1 Legal status

a) Benchmarks

- The Company should be a legally registered entity in order to ensure that it has legal authority to carry out its business in Pakistan and enter into enforceable agreements.
- An entity should obtain registration with relevant governing authorities, as required in relevant laws and regulations, to carry out its operations within the authorized jurisdictions.

b) Observations and conclusion

- The Company was established on 16 August 2007 under the Companies Ordinance, 1984, as a private limited company. Registered office of the Company is situated at 165-M, Gulberg-III, Lahore.
- The Company has obtained registration with PEC under the Pakistan Engineering Council Act, 1975. The certificate of registration signifies 31 December 1977 as the date of registration of the Company, however, as per the constitutive documents, the Company was incorporated on 16 August 2007 under the Companies Ordinance, 1984.
- The Company was assessed to have adequate legal status and authority to enter into agreement with USAID.

4.2 Tax status

a) Benchmark

- The entity should comply with applicable laws and regulations, and maintain adequate registration under the Income Tax Ordinance, 2001.

b) Observations and conclusion

- The Company is registered with Federal Board of Revenue as 'company' under the Income Tax Ordinance 2001.
- The Company has filed income tax returns under Section 114 of the Income Tax Ordinance, 2001, in respect of tax years 2008, 2009 and 2010. Regular payments of tax deducted at source is being made in Government treasury.

Core functions analysis

Governance and management structure – contd..

- We are not provided with the details of possible tax implications (capital gain/ loss) of the business transfer arrangement. In the absence of relevant tax details, we remained unable to assess whether tax implications of the arrangement were adequately accounted for in the books of account and all regulatory requirements were complied.
- The Company was assessed to have adequate registration under the Income Tax Ordinance, 2001.
- We were informed by the Company's management that NDC does not have pending litigations with the Income Tax authorities. However, in the absence of complete details in respect of possible tax implications arising from the Business Transfer Agreement, status of Company's pending litigation with the income tax authorities is not ascertainable.

4.3 Litigation status

a) Benchmark

- Appropriate arrangements should be made to ensure that the entity is able to defend its contractual rights and legal actions instituted against it.
- The entity should not have pending litigations which may affect the continuity of its business operations.

b) Observations and conclusion

- The Company has not entered into a formal arrangement with a legal advisor to manage its legal affairs. Legal services are obtained on a need basis.
- We were not provided information with respect to re-registration of the Firm after the death of one of its Partner. Accordingly, we cannot determine as to whether the Firm was legally registered at the time of business transfer arrangement. Further, claim of PKR 13.3 million (US\$ 0.16 million) payable to the legal heirs of the deceased partner was appearing in the accounts of the Firm for the FY 2010. Claims, if any, of the legal heirs of deceased partner on the Firm's assets and liabilities may affect their legal transfer to the Company.
- Based on our discussions with Company's management, we understand that the Company has no pending litigation instituted by or against it.

- The company was assessed to have entered into adequate arrangements to ensure that it is able to defend its contractual rights and legal actions. On the basis of assessment procedures, no instance of legal dispute came to our attention. However, possible affect of claim of deceased partner's legal heirs may affect our assessment of the Company's litigation status.

4.4 Compliance with corporate laws

a) Risk area

- Adequate controls and mechanisms should be in place to ensure that the entity is in compliance with the provisions of applicable corporate laws pertaining to:
 - a. Conducting operations;
 - b. Holding governance meetings;
 - c. Maintaining books of accounts;
 - d. Filing of statutory returns with the SECP.
- Appropriate controls should be in place to ensure compliance with filing requirements of Companies Ordinance, 1984 and Income Tax Ordinance, 2001.

b) Observations and conclusion

- External audit of the Company has not been arranged since incorporation of the Company, however, the Company has appointed M/s Kamran & Co. as its external auditors.
- We were not provided with complete documentation in respect of Business Transfer Agreement. In the absence of complete documentation, an assessment cannot be made as to whether the business transfer arrangement has been completed and all legal and contractual requirements have been fulfilled. We remained unable to assess whether:
 - a. All statutory and legal requirements have been complied;
 - b. Whether the assets have been actually transferred in the Company's title;
 - c. Whether all liabilities have been accurately and completely transferred to the Company;
 - d. Whether shares have been accurately issued in consideration of transfer of assets and liabilities; etc.

Core functions analysis

Governance and management structure – contd..

- We were not provided information with respect to re-registration of the Firm after the death of one of its Partner. Accordingly, we cannot determine as to whether the Firm was legally registered at the time of business transfer arrangement. Further, claim of PKR 13.3 million (US\$ 0.16 million) payable to the legal heirs of the deceased partner was appearing in the accounts of the Firm for the FY 2010. Claims, if any, of the legal heirs of deceased partner on the Firm's assets and liabilities may affect their legal transfer to the Company.
- As per agreement all the duties, commitments and obligations, of every description both arising at the effective date and future including actual or contingent, arising out of any contract or otherwise of the firm shall be of the company. However, in the absence of audited financial statements, completion of transfer of the Firm's assets and liabilities as per agreement cannot be established.
- As per schedule A & C to the Business Transfer Agreement, total assets of the Firm as at 30 June 2010, before the take over of business by the Company, amounted to PKR 196.55 million (US\$ 2.3 million). However, as per the unaudited balance sheet of the Firm as of 30 June 2010, total assets stood at PKR 141.23 million (USD 1.64 million), depicting a difference of PKR 55.32 million (USD 0.64 million) between the financial statements of firm at 30 June 2010 and the balance sheets shown in the agreement.
- The Company has not complied with the requirements of the Section 6 of the Companies (Issue of Capital) Rules, 1996 in respect of issue of shares for consideration otherwise than in cash. According to Section 6 of The Companies (Issue of Capital) Rules, 1996, a company may issue shares for consideration otherwise than in cash subject to the following conditions, namely:
 - a. The value of assets shall be determined by a consulting engineer registered with the PEC and borne on the panel of at least two financial institutions as a valuer;
 - b. The value of assets shall be reduced by depreciation charged on consistent basis;
 - c. The goodwill and other intangible assets shall be excluded from the consideration; and
 - d. Certificate from a practicing Chartered Accountant shall be obtained to the effect that the conditions of this section have been complied.
- A valuation of assets of the Firm was not carried out at the time of execution of business transfer agreement between the Company and the Firm in respect of fixed assets transferred from the Firm to the Company. Other certification requirements have also not been complied.
- As per agreement the company has taken over the business of the firm however the contracts with clients have not been amended. A letter was issued by the company to all the existing clients of the firm that the firm has been converted into a private limited company by the name of National Development Consultants (Private) Limited, however the agreement states that the business operations and assets amounting to only Rs. 30 million (USD 0.35 million) are transferred to the company .
- Certain fixed assets, as given in schedule A to the agreement are not appearing in the financial statements of the Firm, immediately before the business transfer.
- Company issued shares with a total value of PKR 30 million to the partners of the Firm. Share certificates in respect of the share issue were not provided to us. Accordingly, an assessment with respect to Company's compliance with the statutory requirements of the Companies Ordinance, 1984, cannot be made.
- Company issued shares with a total value of PKR 30 million to the partners of the Firm. Share certificates in respect of the share issue were not provided to us. Accordingly, an assessment with respect to Company's compliance with the statutory requirements of the Companies Ordinance, 1984, cannot be made.
- We are not provided with the details of possible tax implications (capital gain/ loss) of the business transfer arrangement. In the absence of relevant tax details, we remained unable to assess whether tax implications of the arrangement were adequately accounted for in the books of account and all regulatory requirements were complied.
- We were not provided with evidence in respect of initial paid-up capital of PKR 60 million received by the Company.
- We were not provided with the minutes of meeting of the AGM. In the absence of the minutes of AGM, an assessment with respect to Company's state of compliance with the requirements of the Companies Ordinance, 1984, is not possible.

Core functions analysis

Governance and management structure – contd..

4.5 Governance structure

a) Benchmark

- An adequate governance structure, with an inbuilt mechanism that ensures continuous monitoring of entity's operations, should be developed and implemented.
- Adequate segregation of roles and responsibilities should be introduced within the governance structure to ensure a mechanism for regular checks and balances.
- Regular review of entity's operations should be carried out by the governance forums to ensure that operations, quality of services and staff progress is regularly reviewed.
- Functional level roles and responsibilities should be documented and communicated to respective departmental heads and key management personnel to ensure a mechanism for accountability at departmental level.

b) Observations and conclusion

- The Company was assessed to have adequate governance structure and regular review of its operations by the BoD. However, detailed functional level roles and responsibilities have not been developed. Further, ToRs for Associates have not been developed.

4.6 External audit arrangements

a) Benchmark

- The entity should have adequate arrangements for independent audit of its financial statements and control environment.
- The entity should comply with the applicable statutory requirements in respect of arranging an independent audit.
- Auditing entities should be independent in fact and appearance and should independently carry out the responsibilities assigned to them.
- External audit be carried out through a reputed firm for ensuring quality of audit and enhancing the credibility of financial statements.

b) Observation and conclusion

- Being a private limited company, NDC is required to arrange conduct of an external audit on an annual basis by a registered firm of chartered accountants. The Company has appointed M/s Kamran & Co., as its external auditors. However, no audit of the Company has been carried out since its inception. Accordingly, the Company was assessed to be non-compliant with the statutory requirements with respect to conduct of an independent audit.

4.7 Internal audit arrangements

a) Benchmark

- An independent and effective internal audit mechanism should be in-built into the operating cycle.
- An internal audit team with adequately qualified and skilled staff should be employed to carry out effective and efficient internal audit of entity's operations.
- Scope of an internal audit function should cover all cross sections of an entity's operations.
- Formal policies and procedures should be developed for internal audit. Further, the internal audit function should have sufficient human and infrastructural resources to discharge its responsibilities in accordance with the assigned scope of work.

b) Observations

- An independent internal audit function has not been established. Manager – Accounts and Audit is responsible for carrying out internal audits of project expenditure at specific instructions from the CEO (Please refer Annexure U for detailed description of audit observations). However, regular internal audit is not being performed.
- The existing internal audit arrangement is not considered to be independent as it is implemented by the Manager – Accounts and Audit. Further, the internal audit reports are submitted to the General Manager – Finance.
- Formal policies and procedures have not been developed for carrying out internal audit of Company's operations.

FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM

Core functions analysis

Financial management and accounting system

1. Introduction

- A dedicated Finance and Income Tax department has been established to carry out accounting, recording and reporting of financial matters of the Company. The department is responsible for managing the financial and taxation matters of the Company.

2. Scope and function

- An accounting and finance manual has been developed to govern the functions of the department. The manual for accounting and finance covers the following areas:
 - Cash book;
 - Receipts;
 - Payments;
 - Books of account and other documentation required for compilation of accounts; and
 - Stock register.
- Process descriptions included in this report have been compiled on the basis of our discussions with the management of the Company and review of accounting data.

3. Structure of finance and income tax department

- Finance and income tax department has a dedicated team of twenty one employees which is headed by the General Manager – Finance. The General Manager – Finance reports to the CEO (Please refer Annexure E for detailed structure of the department).
- General Manager – Finance is charged with the responsibility for overall operations of the department. GM Finance has an overall experience of 36 years (Please refer Annexure D for the job descriptions of the key staff of the department).

4. Distribution of work

- Financial matters of 38 ongoing projects are administered by 8 project/ senior/ assistant accountants and are supervised by the Manager accounts/audit.

5. Preparation of financial statements

- Financial Year of the Company ends on 30 June.

6. Accounting software

- Company has developed a software for its accounting and finance function. However, software user manual has not been developed (Please refer Annexure F for detailed description of accounting software).

7. Accounting system

- Invoicing mechanism is based on the type of contract. Two types of contracts are being carried out by the Company:
 - Time based contracts; and
 - Deliverables based contracts.
- Please refer Annexure F for detailed description of respective accounting systems in respect of invoicing and project costing, bank accounts management, payroll management, budgetary system and functions, etc.

8. Proposed fund flow mechanism for future project

- A separate bank account will be opened in the name of the project after approval from BoD.
- The bank account will be jointly operated by the CEO or Chairman and one director.
- All project related expense will be made through this bank account including staff salaries.
- All received amounts against the services performed will be deposited into the NDC main account.
- Cash for expenditure including staff salaries will be transferred to project bank account from NDC main account on need basis after approval from chief executive.
- Indirect expenses representing the head office administration expenses will be prorated to the relevant projects on the basis of revenue generated by the project.

Core functions analysis

Financial management and accounting system – contd..

9. Assessment of financial management and accounting system

9.1 Structure/ segregation of duties

a) Benchmark

- Accounting and finance function should be structured in a way to ensure adequate segregation of duties with appropriate flow of authority and a mechanism of checks and balances on the accounting and finance function activities.

b) Observations and conclusion

- Financial transactions are regulated through the CEO/ Chairman and the Directors.
- Manager Accounts, who is assigned with the authority for processing of payments and maintenance of financial records, is also a member of the procurement committee.
- Manager Accounts & Audit conducts internal audit of project expenditure on the directions of the CEO.
- Based on the above, the Finance and Income Tax department is not appropriately structured.

9.2 Adequacy of staff strength

a) Benchmark / criteria

- Accounting and finance function should be adequately staffed to ensure efficient execution of tasks assigned to each personnel and avoid risks of errors and omissions in the accounting records.

b) Observations and conclusion

- Finance and Income Tax department of the Company comprise of a team of 21 staff members which is lead by the General Manager – Finance & Accounts, assisted by a manager accounts, manager accounts & auditing and manager finance & taxation.
- Manager – Accounts/Audit and Manager – Finance and Taxation are responsible for oversight of financial matters of 38 ongoing projects.
- Distribution of responsibilities for managing financial matters of 38 ongoing projects amongst project/senior/assistant accountants are as follows (Please refer Annexure Q for details):
 - 11 projects with total project costs of US\$ 15.33 million are administered by Senior accountant (Mr. Imran) holding B.Com degree with 6 years experience in NDC/ the Firm;
 - 6 projects each are managed by Mr. Jasir, Mr. Rana Azim and Mr. Zaheer with total project costs of US\$ 8.79 million, US\$ 7.55 million and US\$ 8.79 million, respectively;
 - 3 projects with total project costs US\$ 57.63 million are administered by senior accountant/accountant Mr. Qadeer;
 - 6 projects amounting to US\$ 17.42 million are managed by 3 accountants.
- Project accounting staff is not considered adequate on the basis of existing level of operations. Additional staff will be required in case of additional work load due to future project,

9.3 Adequacy of qualification, skills set and experience

a) Benchmark / criteria

- Accounting and finance team should be adequately skilled through their qualifications and experience to be able to maintain reliable and accurate financial records and to carry out the duties and responsibilities assigned to them through their specific job descriptions.

b) Observations

- Mr. Haroon Rashid, General Manager – Finance holds Masters degree in Business Administration and has been associated with the Company/ Firm for previous five years. He has a total experience of 36 years and has served as Director General Finance (B&C), WAPDA and a former CSS.

Core functions analysis

Financial management and accounting system – contd..

- Mr. M. Ashraf, Manager Accounts (Head Office) holds B.Com degree and has been associated with the Company for previous fourteen years.
- Mr. Arif Ali, Manager – Accounts/ Audit holds Masters Degree in Business Administration (Finance) and has been associated with the Company for previous fifteen years.
- Mr. Javed Basit Chishti, Manager Finance and Taxation is part qualified ACCA and has been associated with the Company/ Firm for six years.
- Key accounting and finance personnel have adequate relevant experience, however, except GM finance other key accounting and finance personnel do not hold adequate professional qualifications (Please refer annexure R for detailed description of staff profile).

9.4 Policies and procedures

a) Benchmark

- Adequate policies and procedures should be developed in order to ensure that key processes are accurately performed against measurable performance standards.
- Adequate policies and procedures should be developed to ensure provision of adequate guidance to finance staff in performing day-to-day responsibilities.

b) Observations and conclusion

- An accounting and finance manual has been developed to govern the functions of the department. The manual for accounting and finance covers only the following areas:
 - Cash book;
 - Receipts;
 - Payments;
 - Books of account and other documentation required for compilation of accounts; and
 - Stock register.

- Detailed description of roles and responsibilities of the finance and income tax department, in respect of project costing, asset management, payroll preparation, project invoicing, preparation of financial statements, document retention, etc. have not been specified in the finance manual.

9.5 Preparation of financial statements

a) Benchmark

- Adequate controls should be in place to ensure preparation of reliable financial statements as per management and statutory requirements.

b) Observations and conclusion

- The Company is required to prepare annual financial statements as per the requirements of the Companies Ordinance, 1984, however, statutory financial statements have not been prepared since incorporation of the Company.
- We were not provided the financial statements of the Company in respect of previous financial years of the Company.
- The Company is in the process of preparing annual financial statements for the FY 2011.

9.6 Project invoicing and costing

a) Benchmark

- Adequate policies and procedures should be developed in respect of project invoicing and costing.
- Adequate controls should be in place to ensure that project costs are accurately and completely charged to the project as per the agreed terms and conditions, on the basis of auditable documentation.

b) Observations and conclusion

- All projects are assigned a unique code at the time of contract execution. All expenditure incurred at the project are recorded against project code.
- The accounting software is capable of managing project wise accounting records.
- Project costs primarily comprise of following account heads:
 - a. Staff salaries;
 - b. Social charges (staff allowances);

Core functions analysis

Financial management and accounting system – contd..

- c. Overheads;
- d. Fee; and
- e. Miscellaneous (based on client requirements at actual).
- Based on sample testing, we understand that invoicing and project costing and recording is being carried out in accordance with terms specified in the project agreement.
- Project wise time sheets are maintained in respect of each employee assigned to the project. Time sheets are reviewed as per the process description provided in the finance section of the report.
- We were not provided the basis/ working for charging of overhead costs to the project.
- External client audits are performed at client discretion on the actual expenditure of the Company. However, we were not provided with client correspondence due to which we remained unable to determine whether the Client audits were performed and assess the ultimate resolution of issues, if any, highlighted on the basis of client audits.
- Certain client payments are outstanding since long (please refer Annexure AC for key outstanding balances. Further, client satisfaction reviews are not being performed.

9.7 Payroll procedures

a) Benchmark

- Sufficient and appropriate controls should be implemented to ensure that payrolls are accurately prepared on the basis of personnel records and appropriate adjustments/ deductions are made in accordance with organization's policies and procedures and requirements of the applicable taxation and other laws.

b) Observations and conclusion

- No formal procedures for preparation and payment of payroll have been developed. However, payrolls are being reviewed by respective project managers.
- Salary reconciliations are not being prepared. Consolidated time sheets are not being prepared. Separate time sheets are prepared by project staff deputed at different projects.

9.8 Compliance with payment procedures

a) Benchmark / criteria

- Policies and procedures for bank payments should be adequately laid down. Arrangements should be in place to ensure all bank payments are properly authorised by competent staff.

b) Observation and conclusion

- During our review of the internal audit reports, it was observed that in certain cases supporting documents were not attached with the vouchers (Please refer Annexure U for detailed description of internal audit observations).

9.9 Bank reconciliation statements

a) Benchmark/criteria

- Adequate controls should be in place to ensure that bank reconciliations are prepared in timely manner, reviewed and approved by a competent authority.

b) Observation and conclusion

- Bank reconciliation statements are regularly prepared and reviewed by appropriate level of staff in respect of all bank accounts being maintained by the Company.

9.10 Fixed assets management

a) Benchmark

- Fixed assets register should be designed and maintained in accordance with identified policies and procedures and applicable regulatory requirements.
- All assets should be recorded in the fixed asset register along with their location, custodian and unique identification number (asset code).

Core functions analysis

Financial management and accounting system – contd..

- All assets of the entity should be adequately insured to avoid any losses due to theft and damage.

b) Observations and conclusion

- Fixed assets have not been coded. Date of acquisition, cost and description are available on the register.
- Assets of the company are not insured.
- The register is not updated regularly. A reconciliation of physical assets with accounting records is not being performed.

9.11 Budget monitoring

a) Benchmark

- Adequate controls should be in place to ensure that reliable budgets are prepared in respect of project as well as administrative activities.
- Budgets should be periodically reviewed by appropriate level of management to ensure their relevance and monitoring of actual utilization.

b) Observations and conclusion

- Company level consolidated budgets are not being prepared. However, cost estimates are prepared at the time of project commencement by the Business Development department with help of the finance department. This budget forms part of the proposal submitted for any project.
- Actual expenditure against cost estimates are reviewed on a monthly basis by the Project Manager which are reported to the JV partners, BoD and respective client. These reports are submitted to the BoM on a six monthly basis.
- Cost revisions are incorporated through contract addendums on the basis of utilization reports.
- However, formal documentation of policies and procedures regarding budget reviews has not been carried out.

9.12 Accounting Software

a) Benchmark/criteria

- Data base through which accounting software has been developed should be licensed.
- There should be a formal contract with software developer for maintenance and updating of the software.
- IT policy should be developed and software security should be a part of it.
- Offsite data back policy should be developed and followed rigorously.
- Proper audit trails should be present in the software to track entries.
- Training of accounting staff on the software should be carried out.

b) Observations

- No third party training of accounting staff on the software is carried out.
- Software only possess opening balances for the accounting data generated before the implementation of the software, actual accounting data was not fed into the software.
- Audit trails are not generated by the software.
- No onsite or offsite data backup policy is made or followed.
- Software is protected by passwords available to individual users however periodic changes in password is not required by the software.
- We were not provide evidence with respect to accounting software's ability to generate budget vs. actual reports.

PROCUREMENT SYSTEM

Core functions analysis

Procurement system

1. Overview

- We were not provided with details of procurements undertaken by the Company during previous three years, accordingly, an assessment of Company's existing scale of procurements cannot be carried out. However, since the Company commenced its operations and considering the nature of its business, procurements are not expected to be a significant component of Company's operations.
- Please refer Annexure G for detailed description of Company's procurement system and its overview.

2. Assessment of procurement systems

2.1 Appropriateness of procurement policies and procedures

a) Benchmarks

- Comprehensive procurement policy should be developed which should provide rules and procedures for procurement of goods, works and services. The procurement policy should provide detailed guidance as well as policies and procedures in respect of domestic and international procurements.
- The procurement policy should adequately provide various procurement methods that may be employed in view of different types of procurement to be made in an open and transparent manner.
- Procurement policy should provide guidance in respect of contract management/ administration and clauses for remedies for breach of contract, liquidated damages, certification and payment, after sale services, contract modification and price adjustment, securities, dispute and claim resolution, etc.
- Procurement manual should include detailed evaluation criteria for the selection of consultants.

b) Observations and conclusion

- Procurement processes do not include detailed policies and procedures with respect to procurement services provided to clients, procurement of technical assistance/ consultants, contract administration/ management and other relevant areas.

- Procurement procedures do not include guidelines on procurement process initiation and authority for approval of requisition for procurement is not specified. No policy/guidelines for procurement of services/consultancy have been developed. Procurement policy does not cover international procurements. No specific criteria is provided for selection of suppliers for inclusion in list of approved suppliers.
- Approving authority for list of suppliers is not specified in the procurement procedures.
- Documents required to be generated at each step of procurement and their signing authority has not been specified in the procurement procedure.
- Procurement policies do not provide guidance on the type of contracts to be used in respect of major types of procurements.
- Maximum limit up to which cash procurement can be made is not specified.

2.2 Dedicated procurement function

a) Benchmark

- Separate dedicated function for procurement should be established in view of specialized nature of procurements to be made.

b) Observation and conclusion

- The Company has not established a dedicated procurement function.
- Company provides assistance to clients regarding procurement of contractors and preparation of tender/bid documents. Currently, the Company has 10 ongoing projects in which procurement services are required under the contract, however, a dedicated procurement function has not been established. Further, we were not provided with the detail of resources available/ employed by the Company for the provision of procurement services and details of services provided.
- Procurements do not occur centrally. Each office, is responsible for its own procurement. A Purchase Committee is constituted for making purchases and comprises of two members from administration department and one member from finance department, made at head office level.

Core functions analysis

Procurement system – contd..

- Procurements made at projects are administered by project manager.
- The Company is providing procurement services to its clients including assistance in procurement of contractors and preparation of bidding/tender documents.

2.3 Segregation of duties

a) Benchmark

- Procurement activities should be adequately segregated to ensure that a mechanism of checks and balances is introduced within the procurement cycle.

b) Observations and conclusion

- Adequate segregation of duties for procurement activities carried out at head office level are in place. Procurement committee is responsible for complete procurement process. Director – QMR is the approving authority for procurement process, however, final approval is granted by the CEO.

2.4 Compliance with policies and procedures/laws and regulations

a) Benchmark

- Appropriate controls should be introduced to ensure that all transactions are carried out in accordance with applicable laws and regulations. An effective control environment should be evolved within the entity to ensure that non-compliances are prevented and/ or timely detected and rectified.
- A guidance mechanism should be established to ensure that all personnel involved in procurement activities are apprised with best practices, applicable laws and regulations and revisions therein.
- Since the entity is now carrying out its operations through a private limited company against a partnership firm therefore the employees need to be apprised with laws relating to private limited companies.

b) Observations and conclusion

- It was observed that in certain instances, organization policies were not followed (Please refer to annexure T for detailed compliance observations). Furthermore, please refer to annexure U for summary of issues extracted from internal audit reports).
 - Certain instances were identified where quotations were not called for procurements costing more than PKR 2,000 (US\$ 23.26).
 - Certain instances were identified where comparative statements were not prepared.
 - In certain cases, it was noted that payments were made without approval of Purchase Manager.
 - In certain instances, the cheapest option was not selected.
 - At certain project offices, a stock register was not maintained and issuances made were not properly accounted for.
 - Purchase committees were not formed at certain project offices despite procurements made at project locations.
 - Supporting documents were not available in respect of certain procurement transactions. It was observed that for vehicle procurements, none of the required documentation was prepared for except for the ledger entry voucher.
 - (Please refer Annexure T for detailed description of instances)

2.5 Adequate experience/staff strength in procurement

a) Benchmark

- Personnel vested with the responsibility of procurement should be specialized, experienced, trained and capable of contract management and administration.

Core functions analysis

Procurement system – contd..

b) Observations and conclusion

- Company has adequate staff for procurements made at head office level, however, adequacy of experience and staff strength for provision of procurement services under various projects being undertaken by the Company could not be assessed due to non-availability of relevant information.
- The Company has not carried out international procurements. Accordingly, it does not possess demonstrated experience in carrying out international procurements.

i) At Head office

- At head office level, procurements primarily relating to general administration functions are being made. Company possess adequate experience for the nature of procurements carried out at head office level.

ii) At Project level

- The Company is providing assistance in procurement of contractors and preparation of bidding documents. In the absence of required information (e.g. resources available, CVs and JDs of personnel involved in the provision of procurement services and quantum and nature of services provided in the last two years), adequacy of experience/ strength is not assessable.

2.6 Legal advise on high value procurements

a) Benchmark

- Professional advise on legal documentation such drafting of agreements, employee and consultants should be carried out while awarding of contract.

b) Observation and conclusion

- Company is not involved in high value procurements at head office level and thus does not require legal advise on head office level procurements.
- The Company has no formal legal arrangement for obtaining legal advise for procurement assistance and preparation of bidding documents services. The Company utilizes services of an independent lawyer on need basis.

HUMAN RESOURCE FUNCTION

Core functions analysis

Human resource

1. Overview of the function:

- The Chief of Administration, is charged with the responsibility for management of HR related activities.
- The main focus of the department is upon administrative matters with limited attention given to Human Resource (HR) matters which includes maintenance of attendance register, maintenance of personnel files and hiring.
- The key responsibilities of the Chief of Administration are as follows:
 - To monitor the performance of administration office and office managers;
 - To ensure that the general administration policies of the Company are implemented in the best interest of the Company;
 - To ensure that the maintenance of personal records of all the employees and to generate reports for any reference whenever needed;
 - To ensure that all staff rules and regulations, office orders, holiday notices and policy decisions to all officers/staff of the Company are properly understood by all concerned;
 - To ensure company operations and staff comply with the Company and Government rules and regulations are followed.
 - Handling matters related to security, sanitary, electric and postage.
 - Issue notices in respect of Board of Management decisions.
- The Administration department consists of 21 employees which include 11 managerial level staff and 10 support staff.
- The Company maintains two policy manuals in respect of HR matters.
 1. Procedure for recruitment/selection of personnel
 2. NDC service rules.
- The "Procedure for recruitment/ selection of personnel" covers Company's hiring process. It provides three different methods of recruitment which are advertising, in house recruitment, search method, however, detailed description of applicable procedures have not been provided (Please refer Annexure H for detailed description of policies and procedures).

Department wise staff strength (Head office)				
Department		Professional/ Technical Staff	Support Staff	Total Staff
Head office staff				
1	Business Development Cell	1	5	6
2	Finance and Income Tax	6	15	21
3	Administration	10	11	21
4	Technical staff	10	0	10
5	Draftsman / CAD operators	3	2	5
6	Drivers/Guards/Naib Qasids etc.	0	45	45
Total		30	78	108
Project Staff				
7	Project Staff	409	265	674
Total		409	265	674
TOTAL		439	343	782

Source: Management information

- NDC Service Rules set out various policies with respect to Grade structures, pay scales, conditions of appointment, attendance requirements, termination policy, overtime rules, allowances including travel, and various other matters including leave policy (Please refer Annexure H for detailed description of policies and procedures).

Core functions analysis

Human resource – contd..

Pay Scales		figures in USD	
Grade	Minimum	Increase	Maximum
I	38	2	80
II	42	3	105
III	45	4	121
IV	52	4	141
V	84	6	201
VI	109	8	260
VII	148	10	341
VIII	245	13	500
IX	362	18	715
X	443	23	895

- Project staff has currently been allocated to 24 out of 38 projects mainly due to suspension of projects. Major staff allocations have been made to:
 - construction supervision of flood works in Sindh project: 212 employees; 31% of total project staff; project value: US\$ 1.16 million: 1% of the total project value);
 - third party validation project no. 3: 58 employees: 8.6% of total project staff; project value: US\$ 0.03 million: 0.03% of the total project value;
 - Darawat dam project: 56 employees: 8.3% of total project staff; project value: US\$ 2.6 million: 2.25% of the total project value.
- The above analysis depicts that 48% of total project staff has been allocated to only three projects, having total project value of US\$ 3.79 million (which is 3.3% of total project value). (Please refer Annexure P for detailed description of staff allocation).
- 51 project staff (7.5% of total project staff) has been allocated to suspended projects.
- The Company is expected to have significant idle staff as 28 out of 38 ongoing projects, with 463 employees, are expected to be completed by the end of FY 2011.

2. Assessment of HR function

2.1 Dedicated human resource function

a) Benchmark

- A dedicated function for human resource should be established in view of managing human resource in an efficient manner, to ensure that staff possess adequate up to date knowledge, to ensure continued staff development, HR planning and policy making.

b) Observation and conclusion

- Despite significant employee strength, NDC does not have a dedicated Human Resource function.
- Administration department is responsible for human resource function. Personnel in administration department do not have adequate expertise and qualifications for managing human resource.
- Company has a staff base of 782 employees. As Company is a service provider of specialized nature engineering services, appropriate arrangements should be in place for HR planning, staff development, succession planning, performance evaluation etc.

2.2 Appropriateness of policies and procedures

a) Benchmark

- An organization should have adequate policies and procedures to govern its the HR function. The policies and procedures should be periodically reviewed for their appropriateness and relevance with respect to the size and nature of an entity's operations.
- HR policies and procedures should be complied in order to ensure that key operating resource is adequately managed and utilized towards achieving entity's goals and objectives

b) Observations and conclusion

- Policies and procedures developed for human resource management are not considered adequate as it lacks guidance on following areas:
 - Staff utilization planning.
 - Payroll management.

Core functions analysis

Human resource – contd..

- Staff development.
- Staff redundancy.

2.3 Staff hiring process and personnel record maintenance

a) Benchmarks

- Hiring of personnel should be based on a comprehensive and systematic procedure. Transparent and competitive hiring procedures should be adopted to ensure identification and hiring of best available human resource.
- Policies and procedures related to staff hiring should be complied in order to ensure that suitable employees are identified and hired in a transparent and competitive manner.
- Adequate planning of HR should be carried out and reviewed on a regular basis in order to ensure that adequate staff remains available/ identified for ensuring smooth operation of organization's activities.
- Complete documentation, as stipulated in the policies and procedures, should be maintained in respect of all employees.

b) Observations and conclusion

- The "Procedure for recruitment/ selection of personnel" covers Company's hiring process. It provides three different methods of recruitment which are advertising, in house recruitment, search method, however, detailed description of applicable procedures have not been provided.
- Adequate records of personnel are not maintained in the personnel files of head office staff whereas personnel files of staff (674 staff members) deputed at projects are not maintained at head office.
- Following observations were made during the evaluation of Company's staff hiring processes and employee record.
 - Mechanism for HR planning has not been developed;
 - Policy/ procedures in respect of hiring of consultants have not been developed;

- Hiring policy does not require a hiring requisition to be generated by the relevant department once a post is vacant;
- Interview sheets were not prepared;
- Copies of certificates/ degrees as an evidence of educational qualifications were not available in personal files;
- Company does not have a staff utilization plan and all of its technical staff is engaged on the projects of the company.

2.4 Adequacy of staff qualification, skills set and experience

a) Benchmarks

- Key governance and management staff should possess adequate skills and experience to effectively set entity's goals and objectives, strategize operations towards achievement of those goals and objectives, as well as effectively monitor and manage the operations in view of the adopted strategy.
- A formal mechanism should be in place to ensure that appropriate staff is allocated to a project in order to ensure that client requirements and entity's objectives are successfully achieved.

b) Observations and conclusion

- On an overall basis staff qualification, skill set and experience of key governance and technical staff is considered adequate, however, key management staff at head office level responsible for Human Resource and Finance function does not possess adequate qualification and skills set (Please refer Annexure R for detailed description of staff profiles).

2.5 Staff accountability and performance evaluation

a) Benchmarks

- A mechanism should be implemented ensuring adequate communication of staff responsibilities as well as accountability and evaluation of employee progress against KPIs.

Core functions analysis

Human resource – contd..

- Job descriptions should be carefully developed in respect of each staff position to ensure that most efficient utilization of human resources is achieved. Performance evaluations should be strictly based upon job descriptions and targets assigned to the employee.
- Performance evaluation framework should be developed which should include KPI at individual and project level to evaluate the performance of each individual and substantiate the contribution of individuals towards achievement of goals.
- Salary increments and incentives should be based on performance evaluation.

b) Observations and conclusion

- Staff accountability and performance evaluation mechanism is not considered adequate on the basis of following observations:
 - a. Job description of key staff at head office have been developed whereas standardized job description of associates and staff deputed at projects have not been developed.
 - b. Performance evaluation framework has not been developed. No performance evaluation of project staff is being performed. However, we are informed that project staff is evaluated by respective managers which form 86% of total staff base.
 - c. Certain salary payments were not made in accordance with approved pay scales (Please refer Annexure AB for details).

2.6 Staff retention and employee turnover

a) Benchmark

- An entity should develop effective staff retention policies, linked with careful performance evaluation process, in order to ensure that critical staff is retained and the organization does not suffer from capacity gaps due to high staff turn over.

b) Observation and conclusion

- Formal retention policy has not been developed by the company. Further, we were not provided with the details of staff turnover due to lack of data maintained at head office.

2.7 Staff utilization

a) Benchmark

- Staff utilization plan in the company having business of service provision is vital and should be developed for effective HR planning, key decision making and efficient use of human resource.

b) Observation and conclusion

- The Company is not carrying out a formal monitoring of its staff utilization. Existing staff is not being adequately utilized.

2.8 Staff contracts

a) Benchmark

- The entity should have valid and enforceable contractual arrangements with its employees in order to ensure that it employs sufficient staff to execute its contractual obligations.

b) Observations and conclusion

- Company's employees were transferred from the Firm at the time of execution of Business Transfer Agreement. However, formal modification of employment contracts has not been undertaken to ensure that all employees have contractual arrangement with the Company.

2.9 Training and development

a) Benchmark

- Training need assessment should be carried out regularly to identify the need for capacity development of staff which helps in adequate planning of staff development plan and allocation of adequate budget.

Core functions analysis

Human resource – contd..

- Based on need assessment annual training plan should be developed duly indentifying resources and time lines for the required trainings. Trainings included in the plan should be in accordance with the company policy and should contribute towards achievement of company's goals.

b) Observations and conclusion

- Formal training plan has been developed however no training need assessment has been carried out.
- All the trainings were organized internally through internal resources without considering options of having trainings from international or national experts in the relevant field.

ABSORPTIVE CAPACITY ANALYSIS

Core functions analysis

Absorptive capacity analysis

1. Background

- Pursuant to the scope of work specified in the task order for conducting pre-award assessment of the Company, an absorption capacity analysis was performed to assess whether the Company has adequate resources, infrastructure, experience and systems to adequately manage any additional funding.
- References were made to relevant sections of pre-award assessment performed on the Company to determine whether the Company has adequate resources and systems to manage additional funding in accordance with USAID regulations.

2. Conclusion

- **While the Company (including the Firm) has completed various projects and has a portfolio of various on-going projects, its operations have been managed in an informal manner. Company's financial management systems, human resource management systems and monitoring and evaluation systems have significant capacity issues at the existing level of operations.**
- **Critical information including actual share of the Company in on-going and completed projects, project management documentation maintained at project sites, existing financial position of the Company were not provided to us. Availability of the critical information may have affected our assessment of Company's absorptive capacity, however, effect of the required information on our assessment is not measureable at present.**
- Our conclusion was based on the following factors:
 - a. Financial position of the Company**
 - Company's financial statements have not been prepared since its incorporation and accordingly an external audit of its financial statements has not been performed.
 - Select un-audited financial information has been provided in relevant sections of the report.
 - In the absence of audited financial statements, a reliable assessment of Company's net assets, its liquidity position, its revenue generation capacity is not possible.

b. Relevant experience and history of operations

- We were not provided with Company's/ (the Firm) share in completed/ on-going projects. Accordingly, an assessment of the actual size of projects completed/ being managed by the Company is not possible.
- However, as per management information, thirty four out of thirty eight on-going projects are being implemented under joint venture arrangements with total JV contract size of PKR 9.76 billion (US\$ 113.51 million).
- Out of the thirty four on-going projects, the Company is acting as Lead partner on twenty one projects with a total JV contract size of PKR 2.04 billion (US\$ 23.77 million).
- The Company is solely executing four projects with a total contract value of PKR 173 million (US\$ 2.01 million).

c. Financial management and accounting systems

- Company's financial management staff does not possess adequate relevant qualifications to manage the accounting and finance function with existing scale and nature of the Company. Although, the existing staff is currently engaged in the financial management of on-going projects' portfolio, in the absence of audited financial statements, an assessment with respect to the appropriateness of accounting practices and accuracy of financial records being maintained by the accounting and finance staff is not possible.
- The Company's has not employed adequate staff for the purpose of project accounting (please refer Financial management section for details). In case additional funds are provided, the Company will need to employ additional suitably qualified staff.
- The Company has developed an in-house accounting software which is considered to have sufficient capacity and quality to manage a large volume of transactions. However, the accounting software allows deletion of accounting entries which may affect its ability to maintain an adequate audit trail.

Core functions analysis

Absorptive capacity analysis – contd..

d. Human resource

- The Company has a staff base of 782 employees (please refer Human Resource section for details).
- On an overall basis staff qualification, skill set and experience of key governance and technical staff is considered adequate, however, key management staff at head office level responsible for Human Resource and Finance function does not possess adequate qualification and skills set (Please refer Annexure R for detailed description of staff profiles).
- Despite significant staff base, a dedicated Human Resource department has not been established for managing Company's HR functions which may affect increased level of HR activities due to additional funding.

e. Procurement systems

- We were not provided with details of procurements undertaken by the Company during previous three years, accordingly, an assessment of Company's existing scale of procurements cannot be carried out. However, since the Company commenced its operations in July 2010 and considering the nature of its business, procurements are not expected to be a significant component of Company's operations.
- We understand that the Company has not carried out international procurements. Accordingly, it does not possess demonstrated experience in carrying out international procurements. The Company may not be able to carry out international procurements, in case a future project involves international procurements.

f. Monitoring and evaluation

- An independent monitoring and evaluation function has not been established.
- Although the Company is monitoring thirty eight on-going projects, the existing state of Company's monitoring and evaluation is not considered to be appropriate. Additional capacity building measures would be required to enhance the efficiency and adequacy of monitoring and evaluation function.

MONITORING AND EVALUATION SYSTEM

Core functions analysis

Monitoring and evaluation

1. Introduction

- Company has not established an independent dedicated unit for monitoring and evaluation of administrative and project activities. Further, formal policies and procedures for monitoring and evaluation has not been developed.
- There are no formal procedures or mechanisms in place for preparation of budgets, budget monitoring and comparison.
- Most of the projects undertaken by the Company are carried out through Joint Venture Arrangements with other companies (Please refer Annexure P for detail of projects).

2. Project Life Cycle

- Following stages are generally involved from project inception to successful completion of the project. Please refer Annexure Y for details.

i) Consortium building

- At the time the Company is invited for tender, it approaches other consulting firms/ entities with relevant experience for building a consortium.
- An MoU is signed amongst interested bidders setting out terms and conditions for the JV.
- An expression of interest, comprising of overall relevant experience financial strengths of parties to the MoU, is submitted for the tenders, which are evaluated by the prospective client.
- Project cost estimates are developed on the basis of proposed methodologies, expected man months required in a project and revenue and considerations of Company's management.
- This process is undertaken by the Business Development Cell, which is supervised by the Director – QMR. The cell comprises of technical team which develops the technical and cost estimates of a project.
- In case the consortium is prequalified for the project, proposal for the project is submitted by the consortium. Proposal includes methodology, work plan, specific personnel to be deployed on the project, strategy for project monitoring and management and fee schedule.

ii) Contracting

- Once the proposal is accepted by the technical evaluation team of the client, project contract is awarded to the consortium and letter of work commencement is issued to the consortium.
- Before deployment of the resources on the project, an agreement is signed with the client.
- Contract with client includes general and special terms and conditions to the project, detailed project cost and work plan, details of resources to be deployed at different stages of the project, detailed deliverables, project management structure and reporting requirement.
- Joint venture agreement between the partners includes terms and conditions comprising formation and objective of the joint venture along with identification of Lead partner and project manager, duration of the agreement and duties and responsibilities of the partners,

iii) Project implementation/ management

- Project implementation is the responsibility of project manager an employee of lead partner to the JV however project management responsibility rests with the BoM and Project Manager at project level whereas different JV partners have different mechanisms in place for project monitoring and management.
- BoM comprises of representatives of JV partners which is headed by the representative of the lead partner of the JV.
- In case of NDC, oversight of the project activities and adherence with timelines of the project is carried out at head office and project office level:

a) Oversight at Head Office level

- At head office level, BoD and Project Coordinators are responsible for project oversight.
- BoD meetings are convened on a monthly basis in which project progress and issues are discussed. Formal minutes of these meetings are prepared and are approved by the BoD.

Core functions analysis

Monitoring and evaluation – contd..

- There are a total of four project coordinators who are responsible for oversight of day to day progress, contract management, human resource deployment and billing and outstanding payments of their respective projects. However there is no formal mechanism in place for distribution of projects amongst coordinators on the basis of this experience or expertise.
 - Project progress reports submitted by Project Managers are reviewed by project coordinators on a monthly basis. However, no documentation/action plan is created regarding this review.
 - Project Coordinators are also BoD members. Distribution of a total 38 projects amongst project coordinators is as follows:
 - Mr. Barkat Ali Luna: 10 Projects amounting to US\$ 10.34 million.
 - Mr. Chaudhry Ghulam Hussain: 21 Projects amounting to US\$ 31.83 million.
 - Mr. Foad Hussain: 4 Projects amounting to US\$ 62.84 million.
 - Mr. Ijaz Ahmad Khan: 3 Projects amounting to US\$ 10.52 million.
 - At head office level, company have an expert for quality assurance who is responsible for technical review of monthly progress reports submitted by project managers on discretion of project coordinator. Quality assurance expert is assisted by one support staff. No formal plan for internal quality audits for projects, at head office level, has been developed.
- b) Oversight at Project Level**
- Board of Management (BoM) for individual projects are established for project oversight. BoM meetings are carried out once every six (6) months. However, we were not provided with the minutes of these meetings.
 - BoM is generally comprised of one member from each joint venture partner. Detailed mandate of BoM is agreed in their respective joint venture agreements.
 - Every project is headed by a Project Manager (PM). Project manager is nominated through mutual agreement between the JV partners.
 - The nominated project manager is normally an employee of the lead firm in the Joint Venture. Project manager is responsible for supervision and implementation of project as agreed in the JV agreement and Contract with the client. Further project manager is responsible for the submission of all deliverables within the agreed timelines.
 - Project Manager is also responsible for compliance with reporting requirements of the client. Following types of reports are submitted to clients with a copy submitted to all JV partners:
 - Inception Report
 - Monthly, Quarterly and Annual progress report
 - Completion report
 - Other reports at various stages of the project as determined by the contract.
 - Annual Work plans are developed against which progress is monitored on the monthly basis.
 - On few larger projects of construction supervision quality control and quality assurance departments are established under project manager responsible for quality management through out the implementation of the project.

3. Assessment of M&E function

A. PROJECT LEVEL MANAGEMENT AND MONITORING

3.1 Project evaluation

a) Benchmark

- An assessment of the critical success factors of a project should be carried out which should be measured against available resources (both at entity level as well as JV level).
- A high level review of project plans should be carried out before further progress towards project proposal and contracting stages.

b) Observation and conclusion

- We were not provided with documentation pertaining to carrying out feasibility studies on prospective projects. Accordingly, we remained unable to assess whether appropriate controls are in place and are being implemented in respect of:
 - a. An assessment of whether the Company has adequate human and infrastructural resources prior to entering into a project;
 - b. An assessment of potential risks associated with the project;
 - c. An assessment of likely affect of the project on the existing and future strategic direction of the Company;
 - d. An assessment of likely effect of the project on the existing and future financial resources of the Company.

3.2 Project planning

a) Benchmark

- Projects should be planned in a manner that ensures best utilization of entity's resources. Project performance variables directly linked with key performance indicators should be identified, evaluated and accordingly incorporated into project feasibilities and plans.

- A formal assessment of human and infrastructural resources should be carried out to ensure that available resources are adequately identified, positioned and Company's requirements with respect to project implementation are adequately identified.
- Project plans should be reviewed and approved by relevant key management personnel with adequate expertise to ensure that project is adequately reviewed and possible implementation issues are timely identified and resolved at the planning stage.
- Project activities should be adequately planned and coordinated amongst all implementing partners to ensure that projects are implemented in an efficient and coordinated manner. Project responsibilities should be adequately identified and documented to ensure that all partners are aware of their roles and may be held accountable for their respective set of roles and responsibilities.

b) Observation and conclusion

- Project methodologies are developed on the basis of identified scope of work. Methodologies provide detailed description of project implementation steps, relevant staff and resources to be employed by the entity.
- Project staff is identified, however, a formal process documentation in respect of required level of expertise and number of man months required in a project, is not being carried out.
- Project work plans are developed on the basis of proposed methodologies.
- We were not provide with project evaluation documentation. In the absence of project evaluation documentation, we remained unable to assess as to whether project plans are adequately linked with a detailed project evaluation exercise.
- Cost estimates are prepared on the basis of expected man months in a project. Project plans are reviewed and approved by the Director – QMR.
- It was raised in a BoD meeting that FATA Small Dams Project was not planned well and was currently running in loss.

Core functions analysis

Monitoring and evaluation – contd..

- We were not provided supporting workings in respect of cost estimates prepared by the Company in respect of sample projects identified during the course of pre-award assessment. However, project cost estimates were reviewed during our analysis of the project agreements.
- JV agreements are executed which set out respective roles and responsibilities of each implementing partner. The JV agreements identify the lead implementing partner who is responsible for coordinating the activities of JV partners. BoM, led by the representative of lead partner is formed. Periodic progress reviews are carried out by the BoM. Project management structure; framing of financial policy including working capital and payment of future liabilities and obligation, opening of JV bank accounts, authorization limits, leasing of property for project office accommodations, approval of annual accounts, developing procedures for obtaining clearance of client for engagement of short term specialists, delegation of powers, monitoring of progress, etc. are also specified in the JV agreement.
- Coordination issues were identified during our review of the Quality Management Review reports prepared by the Company.

3.3 Contract management

a) Benchmark

- Formal contracts should be executed with Clients to ensure that respective rights and obligations are adequately documented, program activities are adequately identified, to ensure that Company is not exposed to risks associated with the project.
- Appropriate level of staff, with adequate authority, should be assigned the role for contract management, to ensure that project deviations in terms of project specification; their impact on respective roles and responsibilities of each partner, cost estimates, etc. are adequately documented and signed off by each partner.
- Policies and procedures with respect to contract management should be developed and implemented to ensure that all contracts are adequately developed.

- Adequate change management procedures should be developed and implemented to ensure that all changes are adequately documented, approved by respective parties to the project and are adequately incorporated into project implementation and cost estimates. Adequate record of modifications made in the contract should be retained on the basis of a formal document retention policy.

b) Observation and conclusion

- Formal contracts are executed with Clients specifying respective roles and responsibilities of each partner to the agreement.
- Guidelines in respect of contract management have not been developed.
- Change logs are not being maintained.
- Formal addendums are issued in respect of changes resulting from modifications in project implementation, cost estimates, etc.

3.4 Cost allocation and management

a) Benchmark

- Project costs should be rigorously monitored to ensure that projects are implemented in line with cost estimates, cost variations are reviewed and rationalized, and appropriate modifications are made in project cost estimates.
- Adequate controls should be in place to ensure that project costs are accurately and completely charged to the project on the basis of actual costs. Further, adequate controls should be in place to ensure that costs are charged to the project in accordance with the terms of the project contract.

b) Observation and conclusion

- Please refer financial management section for detailed description of our analysis on the project costing mechanism. (Please refer Annexure F for detailed description of project costing mechanism).

Core functions analysis

Monitoring and evaluation – contd..

3.5 Compliance with project timelines

a) Benchmark

- Adequate controls should be in place to ensure that project timelines are followed. Rigorous review of progress should be carried out to ensure that expected delays are timely identified, appropriate measures are taken to ensure that delays are optimally minimized and appropriate update is provided to the JV partners as well as the client.

b) Observation and conclusion

- Based on our review of the minutes of BoD meetings, we identified certain instances where issues with respect to project timelines were identified (please refer Annexure N for detailed description).

3.6 Progress reviews by project management

a) Benchmark

- Regular progress reviews should be carried out to ensure that progress is regularly reviewed, potential issues are timely identified and communicated to stakeholders, and appropriate resolution is attained.

b) Observation and conclusion

- Project manager along with BOM is responsible for monitoring & evaluation at the project. However, Minutes of meeting of BOM were not shared with us by the management.
- Issues regarding project quality were also raised. In few instances, the client refused to pay the consultants for work done due to disputes over deliverables and/or quality of works. (Please refer annexure AA & N for details).
- No formal mechanism is in place for follow up of issues identified during project implementation.

3.7 Staff management

a) Benchmark

- Adequate controls should be in place to ensure that performance of staff allocated at projects is regularly carried out and reported to appropriate management level.
- Staff utilization analysis should be carried out to ensure that adequate and appropriate staff is allocated to the project.

b) Observation and conclusion

- Performance evaluation reports with respect to project staff were not shared with us. Accordingly, an assessment of adequacy of performance evaluation at project level is not possible.
- Staff utilization plan under the project was requested for the selected sample projects however it was not provided.
- Human resource management analysis/reports along with details of hiring of staff made under the project were requested for the selected sample projects were not provided.

B. INDEPENDENT MONITORING AND EVALUATION

3.8 Independence of monitoring and evaluation function

a) Benchmark

- Monitoring and evaluation function should be independent in fact and appearance and should be an independent overseeing authority, tasked with ensuring continuous checks on compliance with stated policies and procedures.

b) Observation and conclusion

- An independent monitoring and evaluation function has not been established. Accordingly, no formal mandate of the department has been developed.
- Further, no staff has been dedicated for monitoring and evaluation of Company's operations.

Core functions analysis

Monitoring and evaluation – contd..

3.9 Policies and procedures/ job description

a) Benchmark

- Policies and procedures for M&E activities should be adequately laid down to ensure efficient execution of duties by M&E personnel.
- Roles and responsibilities of M&E personnel should be clearly defined and should be set with the objective to achieve effective monitoring and evaluation.
- A robust reporting system should be in place to ensure timely reporting of issues identified thereby assisting the management to take timely corrective actions. Regular follow-up of monitoring and evaluation observations should be carried out.

b) Observation and conclusion

- Policies and procedures in respect of M&E have not been developed, accordingly, no reporting and other requirements are defined. However, reporting requirements pertaining to project progress under each project are included in respective contracts with the clients.
- Roles and responsibilities of M&E function have not been defined.

3.10 Tools and guidelines

a) Benchmark

- Tools and guidelines should be developed to provide guidance in respect of monitoring and evaluation of project and other operation of the Company.
- The tools and guidelines should be updated on the basis of updated monitoring and evaluation requirements of the entity.
- A regular review of compliance with monitoring and evaluation tools and guidelines should be carried out and reported to appropriate level of management.
- Monitoring and evaluation function should be independent in fact and appearance and should be an independent overseeing authority, tasked with ensuring continuous checks on compliance with stated policies and procedures.

b) Observation and conclusion

- Tools and guidelines for carrying out independent monitoring and evaluation of project activities have not been developed.

3.11 Adequate experience of relevant staff

a) Benchmark

- Personnel assigned with the monitoring and evaluation responsibilities should possess adequate qualification, skills and expertise to carry out monitoring and evaluation of project and company's operations.

b) Observation and conclusion

- A dedicated staff has not been assigned for carrying out monitoring and evaluation function. Accordingly, an assessment of adequacy of staff experience and skill set could not be carried out.

3.12 Client satisfaction analysis

a) Benchmark/Criteria

- A formal mechanism should be implemented to carry out client satisfaction analysis at the conclusion of project.
- A mechanism should be implemented to obtain continuous feedback from the clients to assess impact of the services to ensure achievement of the project objectives.

b) Observations and conclusion

- A mechanism for reviewing client satisfaction has not been developed.
- Certificate of completion of any project are not received by the company.
- Correspondence with clients, in respect of projects selected on random selection basis, was not provided.
- Issues regarding delays in receipts of dues were frequently raised in the meeting of the BoD. (Please refer annexure N for details).
- It was observed that few projects were suspended due to non payment by the client.



ANNEXURES

Annexure A

List of key documents reviewed

Sr. No	Name
1	Minutes of Board Meetings
2	Project specific contracts and Joint Venture Agreements for various projects
3	Policies and Procedures Manuals
4	Corporate Profile Booklet
5	Memorandum of Association
6	Financial Statements
7	Company Registration Documents
8	Documents filed with the registrar (Form A, Form 29)
9	Income Tax Returns and Registration
10	List of employees
11	Insurance Documentation
12	Monthly Project Reports submitted to clients for various projects
13	Job Descriptions
14	Resumes of Key Personnel
15	Vouchers including related documents
16	Chart of accounts and Trial Balance
17	Delivery Orders, Purchase Requisitions, Purchase Orders, Comparative Statements, Invoices
18	Bank Account Details
19	Bank Reconciliations
20	Fixed Asset Register
21	Personnel Files
22	Payroll Sheets
23	Internal Audit Reports

Annexure B

List of key personnel interviewed

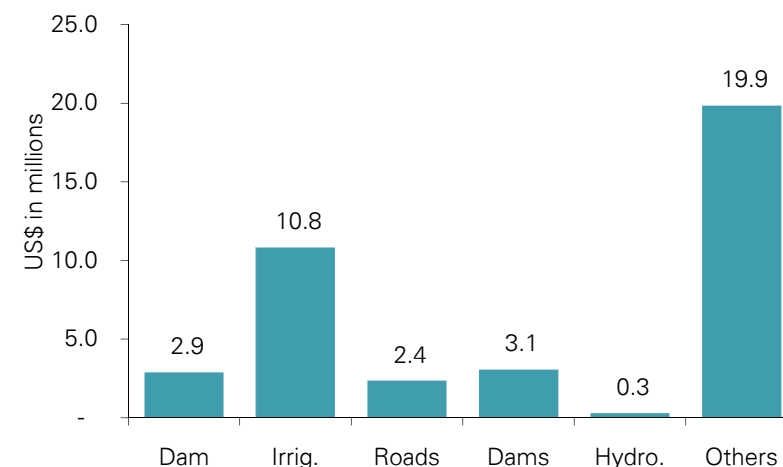
Name	Designation	Department
Mr. Ijaz Ahmad Khan	Director/QMR	Director
Mr. Mirza M. Sadiq	Department Head	Quality Management
Mr. Haroon Rashid	Department Head	Finance & Income Tax
Mr. Chaudary Sher Muhammad	Department Head	Administration
Mr. Muhammad Ashraf	Manager Accounts	Finance & Income Tax
Mr. Arif Ali	Manager Accounts & Audit	Finance & Income Tax
Mr. S H Qamer Muftee	Company Secretary	Administration

Annexure C Project information

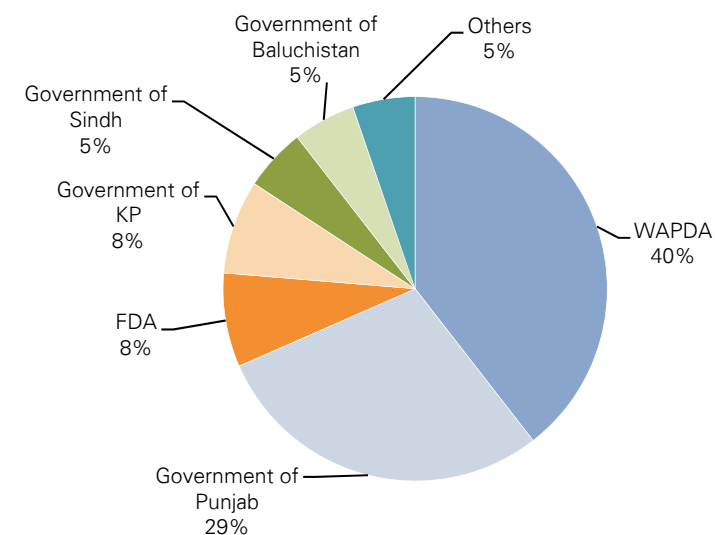
Project information

- The Company/ Firm completed five Irrigation projects during previous three years with an average contract size of PKR 187 million (US\$ 2.17 million).
- Major projects completed by the Company/ Firm include:
 - a) water conservation and productive project (contract size: PKR 393 million/ US\$ 4.57 million; Duration: 3 years);
 - b) Karachi canal project (contract size: PKR 247 million/ US\$ 2.87 million; Duration: 8 years);
 - c) Taunsa barrage emergency emergency rehabilitation project (contract size: PKR 182 million/ US\$ 2.11 million; Duration: 5 years);
 - d) Design and construction supervision of Kot murtaza barrage (Contract size: PKR 120 million/ US\$ 1.4 million; Duration: 9 years);
 - e) Third party monitoring and evaluation of implementation of M&R works project (contract size: PKR 176 million/ US\$ 2.05 million; Duration 4 years); and
 - f) Punjab road sector development project design review and construction supervision project (contract size: PKR 179 million/ US\$ 2.08 million: Duration 5 years).
- Other projects primarily include barrage, third party M&E services and environment related projects (Please refer Annexure O for detailed description of completed projects).
- Dam projects have an average duration of five years. Irrigation projects have an average duration of six years whereas Roads projects have an average duration of 3.5 years.
- Government and semi-government organizations form major client base of the Company. Major clients include: a) WAPDA and Government of Punjab.
- The company currently has 38 projects, which includes 15 projects of WAPDA and 11 projects of Government of Punjab.

Completed projects (previous three years)



Client Composition



Annexure C

Project information – contd..

- The Company has obtained registration with PEC under the Pakistan Engineering Council Act, 1975. Company's registration allows it to undertake projects under 1201 to 1207, 1208 (ii), 1210, 1215 (ii), 1220, 1226, 1232 (ii), 1233, 1234 (iii). The certificate of registration signifies 31 December 1977 as the date of registration of the Company, however, as per the constitutive documents, the Company was incorporated on 16 August 2007 under the Companies Ordinance, 1984.
- The Company has obtained ISO 9001:2008 certification which is valid till 07 November 2013.
- Company's financial statements have not been audited since its incorporation. Further, the Company has not prepared financial statements since its incorporation. Accordingly, a review of Company's financial results cannot be provided.
- We were only provided certain un-audited management records, pertaining to Company's revenues, receivables and share capital.
- As per details provided to us, the Company has booked revenue amounting to PKR 472.81 million (USD 5.50 million) for the FY 2011 with an average monthly revenue of PKR 39.4 million (USD 0.46 million).
- Total receipts during the FY 2011 amounted to PKR 364.7 million (USD 4.24 million) with an average monthly receipt of PKR 30.3 million (USD 0.35 million).
- Total receivables as of June 2011 amounted to PKR 184.48 million (USD 2.15 million).
- As per the agreement between Company and the Firm, total asset base of the Company as of FY 2010 amounted to PKR 30 million (USD 0.35 million) (Please refer Annexure M for detailed terms of agreement).

Annexure D

Job descriptions of finance and income tax department staff

Designation	Roles and Responsibilities
General Manager Finance, Accounts and Audit	<ul style="list-style-type: none"> • To ensure the accounts of the company are prepared correctly as per International Accounting standards for Receipt and Expenditure statements. • To ensure timely preparation and submission of accounts at Head Office level as well as at the Consultants Project offices. • To depict in accounts the correct picture of receivables, disallowances and withheld amounts at Consultants offices at various Projects. • To supervise the preparation of correct Monthly Statement of payments due and actual receipt thereof. • To ensure the correct calculation of Income tax deductions of Project employees. • Proper budgeting analysis of various figures depicting trends of business. • Supervise the compilation of the Final Accounts. • To supervise and coordinate in carrying out the Audit of Main Offices as well as of Project Accounts. • Make suggestions for the improvement in maintenance of Company finance and accounts.
Manager Accounts	<ul style="list-style-type: none"> • Proper accounting of Receipts from projects. • Payments of salaries to overhead employees and arranging Director's salaries and other payments. • Urging the Project Accountants for timely receipts from Clients. • General accounting and preparation of Final Accounts of the company as a whole. • Planning financial activities of the firm. • Keeping an effective liaison with the External Tax Advisor for disposal of tax cases. • Ensuring correct calculations for the tax due from employees and company. • Ensuring adequate security of Cash in hand. • Arranging cash for Project accountants. • Proper listing, maintenance and custody of all the official records handed. • To arrange the compilation of Final accounts.
Manager Audit	<ul style="list-style-type: none"> • To Audit receipts of payments against invoices and to ensure their proper accounting as per procedures. • To audit payment of salaries to project employees. • To audit project accountants for timely receipt of payments against invoices to client. • To audit calculations/recoveries of the income tax due. • To carry out internal audit of projects. • To audit the final accounts.

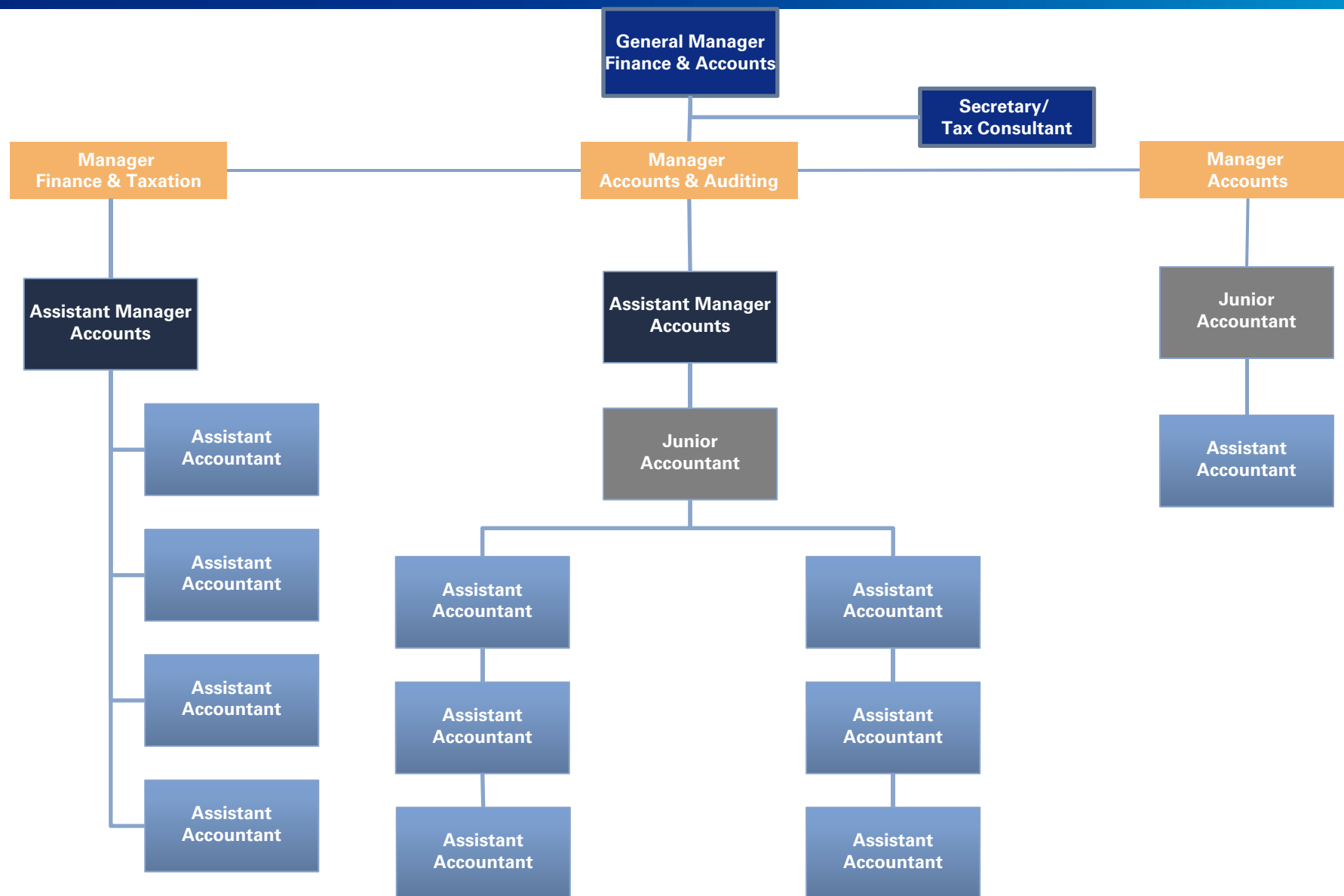
Annexure D

Job descriptions of finance and income tax department staff – contd..

Designation	Roles and Responsibilities
Manager Finance and Taxation	<ul style="list-style-type: none"> • To watch receipts of payments against invoices. • To ensure timely payment of salaries to project employees. • To ensure correct calculations/recoveries of income tax. • To carry out half yearly project audits. • To arrange compilation of the Final Accounts.
Assistant Manager Accounts	<ul style="list-style-type: none"> • To watch receipts of payments against our invoices from projects dealt with by junior accountants. • To ensure timely payment of salaries to project employees. • To ensure correct calculations/recoveries of income tax. • To carry out quarterly project audits. • To arrange compilation of the Final Accounts.
Senior Accountant / Accountant	<ul style="list-style-type: none"> • Planning. • Billing. • Ensuring timely receipt of payments. • General Account. • Project Support.

Annexure E

Structure of finance and income tax department



Annexure F

Policies and procedures for financial management and accounting system

Following are the major policies and procedures for financial management and accounting system

1. Preparation of financial statements

- Financial Year of the Company ends on 30 June.
- The Company has not prepared financial statements since its incorporation, however, we understand from our discussions with the management that preparation of financial statements in respect of FY 2011 are in process.
- We were not provided with the accounting policies and procedures, however, we were informed by the management that financial statements will be prepared using accrual basis of accounting.

2. Accounting software

- Company has developed a software for its accounting and finance function. However, software user manual has not been developed.
- A Chart of Accounts has been developed to allocate account codes for classifying various transactions, keeping in view the nature of the business conducted by the Company, the chart of account is considered to be logical and adequately flexible to incorporate new account codes with the increase of operations and requirements without disturbing the original scheme of account.
- Unique project code is allocated to each project. Project related receipts and expenditures are booked against each project in the accounting software.
- Creation of a new account head or deletion of an existing account head can only be done by Accounts Manager. The software is password protected.
- Manager – Accounts & Audit and Manager – Finance & Taxation are responsible for the accounting of all projects of the company which are divided between these two managers. Accounting at transaction level is being carried out by Assistant and Junior Accountants.
- Assistant and Junior accountants have been allowed restricted access to the accounting of projects.

- Project accounts are consolidated by Manager Accounts & Audit and Manager Finance & Taxation. The consolidated data is then transferred to Accounts Manager at Head Office for consolidation with head office accounts.
- The Accounting Software is capable of providing basis financial reports including Ledger, Receipt Statement, Payment Statement, Profit and Loss and Balance Sheet. The accounting software is capable of generating project wise balance sheet, profit and loss. The accounting software is also capable of generating receivables' age analysis, supplier analysis. However, we were not provide evidence with respect to accounting software's ability to generate budget vs. actual reports.

3. Financial management system

A. Cash management system

i) Invoicing and receipts

- Invoicing mechanism is based on the type of contract. Two types of contracts are being carried out by the Company:
 - Time based contracts; and
 - Deliverables based contracts.

a) Time based contracts

- In respect of time based project, a monthly invoice is generated on the basis of agreed rates as set out in the agreement and time sheets received from the Project Manager. Daily attendance records are updated at project sites which form basis for preparation of employee wise monthly time sheets which are reviewed by the Project Manager before submission to the Head Office.
- Invoices are prepared by respective Assistant Accountants at the Head Office and approved by the Project Coordinator.
- On a monthly basis, all approved invoices are sent to respective Project Managers for onward submission to the client.
- A Journal Voucher is posted by respective Assistant Account in the accounting software, against the relevant project code, once an invoice is generated.
- All invoices are submitted to the relevant project managers who consolidate the invoices received from other Joint Venture partners and submit them to the client. A project manager is normally an employee of lead partner in any JV.

Annexure F

Policies and procedures –

Financial management and accounting system – contd.

- Project managers are also responsible for the recovery of all invoices. Upon receipt of a cheque from a client, a Journal Voucher is prepared by the assistant accountant maintaining accounts of that project and signed by the relevant project coordinator. All cheques are forwarded to Accounts Manager Head Office who is responsible for depositing these in bank account after approval of Chief executive.
- Project coordinators are the directors or the chief executive of the company.
- All receipts are deposited in NDC main account on the same day or on the next day if received after bank closing time.

b) Deliverables based contracts

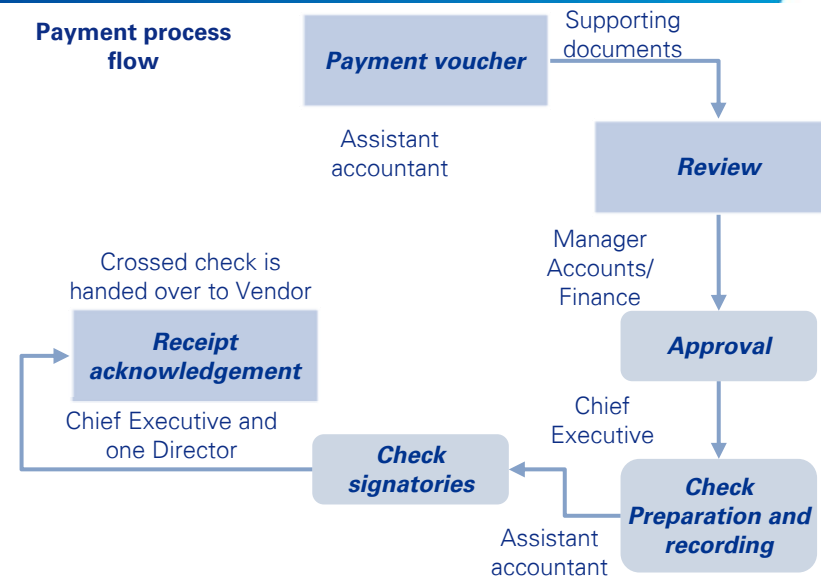
- In case of deliverables based contracts invoices are raised to the client only after the deliverables are submitted by the project. Similar process for review and approval by project coordinator is followed in respect of deliverables based contracts.

ii) Payments

- All payments are made after approval of the CEO/ Chairman. Every payment is recorded through a cash/ bank payment voucher which is duly supported by the bills/invoices received from suppliers.
- For every payment, a receipt acknowledgement is obtained from the recipient. All payments are subject to withholding of taxes, if applicable.

B. Bank accounts management

- The opening and operation of bank accounts in the name of the Company requires approval from the BoD.
- Signatures of at least two authorised signatories are required to validate any transaction. A cheque may be authorized by either the CEO/ Chairman and one director.
- Furthermore, bank reconciliations are prepared by the Assistant Accountant each month and signed by the Manager Accounts and the CEO.
- Primarily, two types of bank accounts are maintained. A separate bank account is maintained in respect of each project. The project bank account has similar set of authorized signatories and is being utilized for incurring project expenditure.



- b) Central level main collection bank accounts are being maintained where all revenue collection is maintained. These bank accounts are used for providing funds to project accounts and administrative expenses.

- Company's bankers include: a) MCB Bank Limited; b) Faysal Bank Limited; c) Bank of Punjab; d) United Bank Limited.

4. Payroll management

A) Projects

- Estimated payroll for projects is prepared by the assistant accountant - projects, on the basis of previous month's actual payroll. Estimated payroll is approved by the relevant project coordinator.
- On the basis of approved estimated payrolls, a summary is prepared which is approved by relevant Project Coordinator and sent to the Accounts Manager at Head Office. The estimated payrolls include a buffer of Rs. 50,000 (US\$ 581.40) for any increase in salary of an employee or new employees hired during the month.

Annexure F

Policies and procedures – Financial management and accounting system – contd.

- A consolidated demand is generated by the Accounts Manager at Head Office for all projects on the basis of estimated payrolls.
- This consolidated demand is approved by the CEO and cheques are prepared which are sent to all relevant assistant accountants.
- The cheques are deposited in the relevant project accounts.
- Actual payroll is prepared on the basis of actual time sheets received from the projects. These time sheets are approved by the project manager and the section heads.
- Time sheets from all the projects are received through e-mail or by post.
- Individual salaries are then transferred to salary accounts of all employees.

B) Head Office

- Payroll for head office employees and the directors are prepared on the basis of attendance register which is maintained by the admin officer.
- Attendance register is signed by the chief executive on daily basis.
- Salary demand for head office staff and directors is approved by the chief executive. Salary is deposited/transferred to the salary accounts of all employees.

5. Budgeting system and functions

- Company level consolidated budgets are not being prepared. However, cost estimates are prepared at the time of project commencement by the Business Development department with help of the finance department. This budget forms part of the proposal submitted for obtaining any project.
- Actual expenditure against cost estimates are reviewed on a monthly basis by the Project Manager which are reported to the JV partners, BoD and respective client. These reports are submitted to the BoM on a six monthly basis.

- Cost revisions are incorporated through contract addendums on the basis of utilization reports.
- However, formal documentation of policies and procedures regarding budget reviews has not been developed.

6. Project costing mechanism

- All projects are assigned a unique code at the time of contract execution. All expenditure incurred at the project are recorded against project code.
- Project costs primarily comprise of following account heads:
 - a. Staff salaries;
 - b. Social charges (staff allowances);
 - c. Overheads (80%-100% of staff salaries);
 - d. Fee; and
 - e. Miscellaneous (based on client requirements at actual).
- Project wise time sheets are maintained in respect of each employee assigned to the project. Time sheets are reviewed as per the process specified above.
- Social charges are charged to the project with respect to each allocated employee as per the Company's policies. However, we were not provided the relevant policies due to which we remained unable to obtain their understanding and assess their appropriateness.
- We were not provided the basis/ working for charging of overhead costs to the project.
- Fee is charged to project on the basis of staff salaries. Fee rate ranges from 10% to 20%.

Annexure F

Policies and procedures –

Financial management and accounting system – contd.

- External client audits are performed at client discretion on the actual expenditure of the Company. However, we were not provided with client correspondence due to which we remained unable to determine whether the Client audits were performed and assess the ultimate resolution of issues, if any, highlighted on the basis of client audits.
- Certain client payments are outstanding since long (please refer introduction section of the report for key outstanding balances. Further, client satisfaction reviews are not being performed.

Annexure G

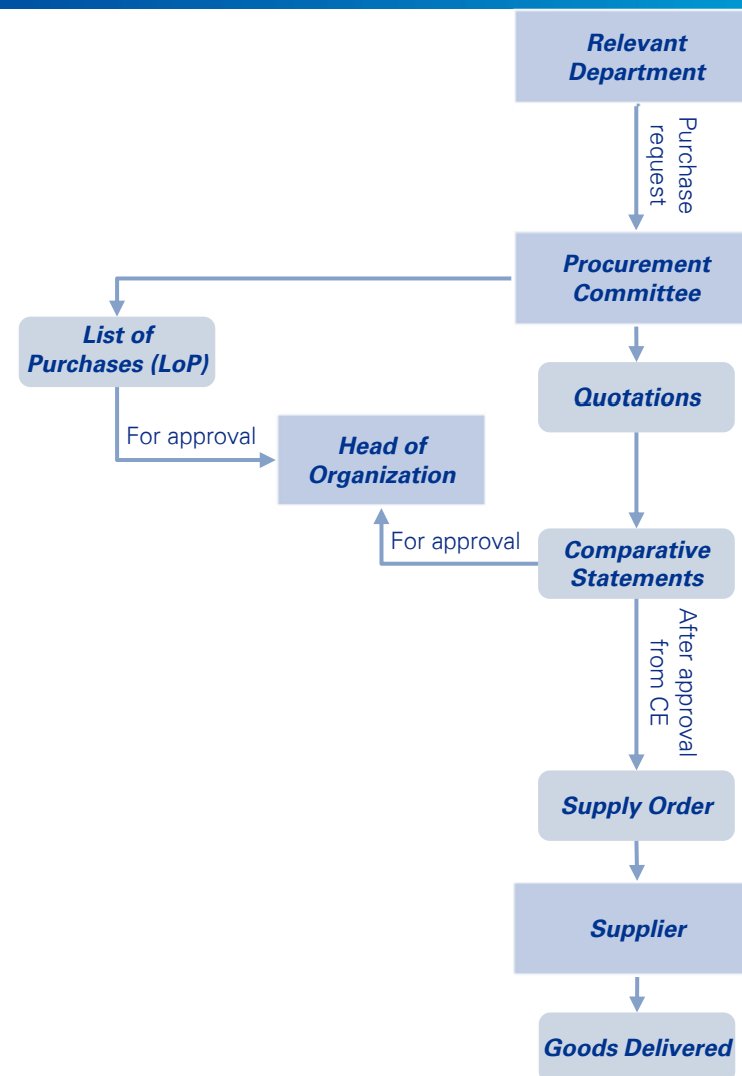
Policies and procedures - Procurement system

1. Procurement Process

- Purchases are made with approval of Head of Organization. (Chairman for branch office, or CEO for head office)
- QMR is responsible for procurement process at the head office, for projects the procurement process is under the responsibility of project manager.
- A list of approved suppliers, kept with the Office Manager, is maintained by the Purchase Committee after carrying out market surveys.
- Items to be purchased are listed on the prescribed Performa which is approved by the HO.
- On receipt of approval from HO for procurement of goods, three quotations are obtained.
- Quotations are required for goods having value greater than PKR 2,000 (US\$ 23.26).
- A comparative statement is prepared and submitted to the HO for approval duly signed by the PC members.
- Supply order is issued to the lowest price supplier after approval from HO. Any exceptions to this rule are also stated in the comparative statement.
- Before making any payment; all items whether procured through cash or cheque are entered on the relevant stock register and the bills are verified for payment by Office Manager.
- In case of procurement through cash; holder of advance submits the expenditure account and returns the cash in hand to the cashier.

2. Store Issuance

- Issuance from store is made on receipt of a requisition duly recommended by the sectional head and approved by the competent authority.
- Requisition slips are serially numbered and are filed each day in the relevant requisition slip file.
- Office Manager carries out quarterly inspection/stock take of the store items and submits it to the next higher officer.



Annexure H

Overview of the HR policies and procedures

1. Overview of the HR policies and procedures

- Overall the staff of the company is divided into two categories. Technical (employed with a practice area, and dealing directly with clients) and Support (those that perform administrative duties, relating to Human Resources, finance, clerical work, logistics, and etc).

2. Recruitment Process

- NDC Employs one of three procedures for hiring purposes.
- Search Method: The most common method used by the firm. A standing list of prospective candidates in various discipline is maintained by NDC Admin consisting of C.Vs of persons who have already served the firm and those who periodically approach for suitable employment.
- As per need, three C.Vs are shortlisted from the standing list and called for interview. The interview is conducted by the Managing Partner, assisted by another Partner and a Senior Manager of NDC from the relevant practice area.
- During the interview negotiations for salary is also conducted.
- After final selection the incumbent is directed to the Admin Branch for completing the formalities of appointment.
- In-House Resourcing Method: The second method of recruitment involves filling in positions through selecting/promoting of suitable in-house personnel. The individual case is considered by the Board of Management in their meetings. If approved, a formal letter of appointment is sent to the individual.
- Advertisement: When a vacancy cannot be filled through one of the preceding two procedures, the third method of recruitment is used. An advertisement is made in national print media or through the company website. Applications are received, evaluated and short listed candidates are called for interview.

3. Conditions of Appointment

- A candidate shall not be less than 18 years of age at the time of appointment in the Service of the Firm.
- Continuation of services of employees in grade VI to IX beyond age of 60 shall be subject to review and approval of the Management Board.

- Every Candidate selected for appointment must be declared physically fit by a Registered Medical Practitioner approved by the Firm. A certificate of fitness shall be in the prescribed form.
- No employee unless permitted by management shall directly or indirectly engage in any other professional, service or business.

4. Maintenance of Personal Files

- Personal files are maintained by HR function which includes following information:
 - Certificate of Physical Fitness
 - Record of service maintained on ongoing basis.

5. Pay scale

- NDC Service Rules Policy Manual includes a detailed pay scale breakdown. Employees are divided into three groups, Engineers and related professions, Accountants and other equivalents, and Office management and services. Categories of pay scale are further divided in to 10 grades.
- Grade 1 & 3 are set for support/clerical staff however 3 to 10 includes professional staff.
- For all staff, minimum basic pay can range from Rs. 3,240 (US\$ 38) to Rs. 38,070 (US\$ 443) and maximum basic pay can range from Rs. 6,840 (US\$ 80) to Rs. 76,970 (US\$ 895).

Pay Scales		figures in USD	
Grade	Minimum	Increase	Maximum
I	38	2	80
II	42	3	105
III	45	4	121
IV	52	4	141
V	84	6	201
VI	109	8	260
VII	148	10	341
VIII	245	13	500
IX	362	18	715
X	443	23	895

Annexure H

Overview of the HR policies and procedures – contd..

6. Overtime

- Employees belonging to Grade VI to IX may be allowed overtime on certificate from the concerned Senior Officer in charge subject to maximum of 150 hours in any one year. It is not applicable to employees assigned to or engaged at work sites and employees belonging to professional group. It is calculated on basis of daily attendance and overtime is calculated as the excess hours worked beyond the 8 hour daily requirement.

7. Payroll

- Payroll for project employees is prepared on the basis of time sheets prepared at the project.
- Time sheets are approved by the project manager and relevant section head.
- Payroll for head office staff is prepared on the basis of attendance register which is maintained by the office manager and approved by the chief executive.

8. Termination of Service and Resignation

- The services of an employee can be terminated by the Management without assigning any reason after giving one month's notice or pay in lieu thereof. If the notice requirements are different in the employment contract, then these requirements take precedence instead.
- No employee shall resign without giving advance notice of less than one month. Failing to do so shall require payment of one month pay.

9. Final Settlement

- Where an employee resigns or his services are terminated for reasons other than misconduct, he shall be entitled to, in addition to other accrued benefits, gratuity equivalent to 20 days for each year of his service calculated on basis of last pay drawn by him.

10. Vehicle and Fuel Entitlement

- As per NDC Service Rules Policy Manual, conveyance/vehicle entitlements have been set for permanent employees according to their grade and job requirement.
- Provided that travel does not exceed 200km one way, employees of Grade VIII, IX and X may be allowed to travel in their own personal transport. Exceptions can be made by management under special circumstance. Travel allowance is set at Rs. 8/KM.

- When official transport is not available, employees of any grade for official local transport may charge at Rs. 8/KM for cars and Rs. 4/KM for motor cycles.

11. Per-diems

- As per HR policy all business related travels are covered by the company. Arrangement are made within allowed limits as per grades.
- Employees are entitled to daily allowance for more than 8 hours absence from his permanent station on official duty subject to a maximum of fifteen days. Extension in this period may be allowed by management in special cases.
- The entitlements are broken down into Ordinary Daily Allowance and Special Daily Allowance. Special allowance is provided for the following cities: Peshawar, Karachi, Lahore, Rawalpindi, Islamabad, Quetta, Hyderabad, Multan, Faisalabad & Other cities as per management discretion. Ordinary allowances apply for all other locations.

Per-diem rates

Employees In	Ordinary Daily Allowance (US\$)	Special Daily Allowance (US\$)
Partners/Associates	12	17
Grade-X and Specialists	9	12
Grade-IX	8	11
Grade-VIII	6	8
Grade-VII	6	8
Grade-VI	4	5
Grade-V	4	5
Grade-IV	4	5
Grade-III	2	3
Grade-II	2	3
Grade-I	2	3

- The allowance is given for purposes of covering living costs. Travelling costs incurred are paid on actual basis after submission of voucher.
- In addition, where hotel or rest house stay is needed, reimbursement of single room rent is also allowed in addition to the above stated daily allowances subject to per grade limitations.

Annexure H

Overview of the HR policies and procedures – contd..

- Entitlement to hotel expenses (Inclusive of tax):
 - Grade IX & X: Any hotel room with rent up to Rs. 10,000 per day (US\$ 116)
 - Grade VIII: Any hotel room with rent up to Rs. 5,000 per day (US\$ 58)
 - Grade VI & VII: Rent up to Rs. 3500 per day (US\$ 41)
 - Grade IV & V: Rent up to Rs. 2000 per day (US\$ 23)
 - Grade II & III: Rent up to Rs. 1250 per day (US\$ 15)
 - Grade I: Rent up to Rs. 750 per day (US\$ 9).
- Where an employee is required to make his own arrangement for boarding, he is entitled to 1.3 times the daily allowance admissible.

12. Staff Performance evaluation process

- A record of service of each employee is maintained in that employees personnel file. Employees do not have access to this record though he shall be informed of any adverse remarks in order to give him a chance to explain or correct himself.

Annexure I

Synopsis of Memorandum of Association

Name of the Company: National Development Consultants(Private) Limited

Registered Office: Punjab Province

Legal Status: Company limited by Shares incorporated under section 31 Clause 28 of the Companies Ordinance,1984

A) Objects:

- The company for which the company is established are to undertake the following business in and outside Pakistan.
 - To take over National Development Consultants (Regd.) with all assets and liabilities.
 - To carry on business as Consultants, Advisers, Valuers, Engineers, Designers, Decorators, with regards to generation, transmission, distribution of electricity; construction, development improvement of Dams, buildings, roads, bridges tunnels, water distribution systems and other related structures. Also to carry on business as Consultants, Valuers, Appraisers, Trainers, Surveyors, Planners, Specialists, Professional Advisers, Agents, Estimators and any other Civil, Electrical, Water and Mechanical Engineering and work of any kind whatsoever subject to permission from relevant authority.
 - To plan, design, supervise the construction of dams, spillways, canals, distribution works. Also to do the same for Hydro Electric, thermal, gas and atomic energy projects, flood reservoirs, flood embankments, modern foundations, flood channels, navigational canals, all types of buildings, highways, bridges and land reclamation projects.
 - To provide to its prospective clients identification and advice on various forms and aspects of Procurement with a view to develop procurement frameworks. To further prepare all usual and relevant documentation for effective and economical implementation of existing or proposed Procurement methodology/process, and to develop and run training programs.
 - To carry out studies on environmental aspects, produce mathematical models of groundwater development and physical modeling of Civil Engineering Works.
 - To carry on business as inventors, researchers and developers, to conduct, promote and commission research and development in connection with the businesses and activities of the company and its subsidiaries
 - To apply for and obtain necessary consents, permissions and licenses from any Government, State Local and other authorities for enabling the Company to carry any of its objects into effect or for extending any of the powers of the company or for effecting any modification of the constitution of the Company or for any other purpose may seem expedient.
 - To accept as consideration for services rendered, and to acquire, hold or dispose of investments in shares, Modaraba certificates, term finance certificates, Musharika certificates bonds, debentures, bonds, other securities whether issued by a company or government, but not to do the business of an investment company.
 - To purchase or acquire, protect, prolong and renew any patents, licenses, protections, concessions and the like as per the advantage or need of the company.
 - To settle disputes by negotiation, conciliation, mediation, arbitration, litigation or other means and to enter into compromise with creditors, members and any other persons in respect of any difference or dispute with them.

B) Legal Form:

- The Company is being formed as a private limited company

C) Liability :

- The liability of the members is limited.

Annexure I

Synopsis of Memorandum of Association– contd.

D) Share Capital

- The Authorized Share Capital of the company is Rs 75 million (US\$ 0.87) divided in to 750 shares of Rs 100,000 each (US\$ 1,163) .
- Paid up shares are as follows:
 - Ch. Ghulam Hussain (Consulting Engineer) 150 ordinary shares of Rs. 100,000 each (US\$ 1,163)
 - Ijaz Ahmad Khan (Consulting Engineer) 150 ordinary shares of Rs. 100,000 each (US\$ 1,163)
 - Ahsan Ali Luna (Consulting Engineer) 150 ordinary shares of Rs. 100,000 each (US\$ 1,163)
 - Ch. Foad Hussain (Consulting Engineer) 150 ordinary shares of Rs. 100,000 each (US\$ 1,163)

Annexure J

Synopsis of Articles of Association

1) Articles of Association

A) Table 'A'

- The regulations in Table 'A' in the First Schedule in the Company Ordinance, 1984 shall not apply to the Company except where reproduced.

B) Private Company

- The number of the members of the company (Exclusive of persons who are for the time being in the employment) shall not at any time exceed 10 where joint share holders are treated to be as a single member.
- The company shall not at any time offer any of its shares or debentures, or debenture stock to the public for subscription.
- The right to transfer shares of the company is restricted.

C) Shares

a) Share rights

- The shares of the company shall be under the control of the Directors, who may allot or otherwise dispose of the same to such persons, on such terms and conditions, and at such times and for such consideration as the Directors think fit
- Every person whose name is entered as a member in the register, entitled to receive share certificate duly signed to director /directors committee/ secretary of company.

b) Transfer of shares

- The instrument of transfer of any share in the company shall be executed both by the transferor and transferee, and the transferor shall be deemed to remain holder of the shares until the name of transferee is entered in the register
- The directors may in their absolute and uncontrolled discretion decline to register or acknowledge any transfer of any share and shall not be bound to give any reason for such refusal.

c) Transmission of shares

- The executor, administrators, heirs, or nominees as the case may be, of a deceased sole holder of the share shall be the only person recognized by the Company as having any title of the share.
- In case of the shares registered in the names of two or more holders, the survivor or survivors shall be the only persons recognized by the Company as having any title to the share.
- A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share

d) Alteration of Capital

- The Company may, from time to time, by ordinary resolution, increase the share capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe.

Annexure J

Synopsis of Articles of Association – contd..

- Subject to the provisions of the Ordinance, all new shares shall before issue be offered to such persons at the date of the offer are entitled to receive notices from the company of general meetings in proportion to their existing shares.
- Share capital can be reduced by ordinary resolution by any reason

D) Meeting and proceedings

a) General meetings

- Annual General meeting: An AGM shall be held, in accordance with the provision of section 158, within 18 months from the date of incorporation of the company and there after once at least every year within a period of six months following the close of its Financial year.
- Extra ordinary general meetings: All general meetings other than the AGM shall be called Extra-Ordinary general Meetings. Directors may whenever they think fit, call an extra-ordinary general meeting, and extra-ordinary general meetings shall also be called on such requisition.

b) Notice and proceedings

- 21 days notice at least specifying the place, the day and the hour of meeting and in case of special business, the general nature of that business, shall be given in the manner provided by the ordinance for general meeting.
- No business shall be transacted at any general meeting unless quorum of members is present at the time when meeting proceeds to business\
- Chairman of BoD , if any , shall preside as chairman of every general meeting of the Company, if at any meeting he is not present or is unwilling to act as chairman, any one of the Directors present may be elected to be chairman, if none of the director present or is unwilling members can chose one of there member as chairman
- If poll is demanded, it shall be taken in accordance with the manner laid down in section 168.
- All business shall be deemed special that is transacted at a meeting of the directors, whether EGM or AGM, except for declaration of dividend, consideration of accounts, balance sheet, director and auditor reports, election of directors and appointment and remuneration of Auditors.

c) Votes of members

- Every member present in present shall have one vote except for election of directors in which case the provision of section 178 shall apply
- On a poll every member shall have voting rights as laid down in section 160.
- The instrument of appointing a proxy shall be in writing under hand of the appointer or of his attorney duly authorized in writing and must be deposited at the office not less then 48 hrs before the time of holding the meeting.
- A proxy must be a member of the Company.

E) Management and Administration

a) Board of Directors

- The number of directors shall not in any case be less then two
- No person shall be appointed as a Director unless he is a member of company.

Annexure J

Synopsis of Articles of Association – contd..

- Remuneration of Chairman, MD and any other director attending meeting of the Directors shall be determined by the BoD

b) Powers and duties of Directors

- The business of the company shall be managed by the directors, who may pay all expenses incurred in promoting and registering the Company
- The Board may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and assets and to issue debentures, and other securities, whether outright or as collateral security for any debt, liability of the company or of any third party.

c) Disqualification of Directors

- No person shall become a Director of the company if he suffers from any of the disabilities or disqualifications mentioned in section 187,
- However, that no director shall vacate his office by reason only of his being the member of any company which has entered into Contracts with, or done any work for, the company but such Director shall not vote in respect of any such contract or work

d) Proceeding of Directors

- The Directors may meet together for dispatch of business, adjourn and otherwise regulate their meetings, as they think fit.
- Questions arising at any meeting shall be decided by a majority of votes
- Directors can delegate any of their powers not required to be exercised in their meeting to committees consisting of such members or members of their body as they think fit.

e) Election and Removal of Directors

- At the first AGM, all Directors shall stand retired from office and Directors shall be elected in their place in accordance with section 178 for a term of 3 years
- The Director shall comply with the provisions of section 174 to 178 and section 180 relating to the election of directors and matters ancillary thereto
- The Company may remove a director but only in accordance with the provisions of the ordinance.

F) Dividends and Reserves

- The company in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Directors.
- No dividend shall be paid otherwise than out of profits of the year or any other undistributed profits.
- The dividend shall be paid within the period laid down in section 251.
- All Dividend unclaimed for six years after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.
- The Directors may before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves
- The Directors may carry forward any profits which they may think prudent not to distribute without setting them aside as a reserve.

Annexure J

Synopsis of Articles of Association – contd..

G) Accounts:

- Proper books of account shall be kept, as required by section 230 of the Ordinance
- Audited Profit and loss accounts, balance sheets and reports as referred by Section 233 and 236 of the Companies Ordinance, 1984 shall be prepared.
- A copy of balance sheet and profit and loss account and reports of directors and auditors shall, at least 21 days preceding the meeting, be sent to the persons entitled to receive notices of general meetings.

H) Audit:

- Auditors shall be appointed and their duties regulated in accordance with Sections 252 to 255 of the Ordinance

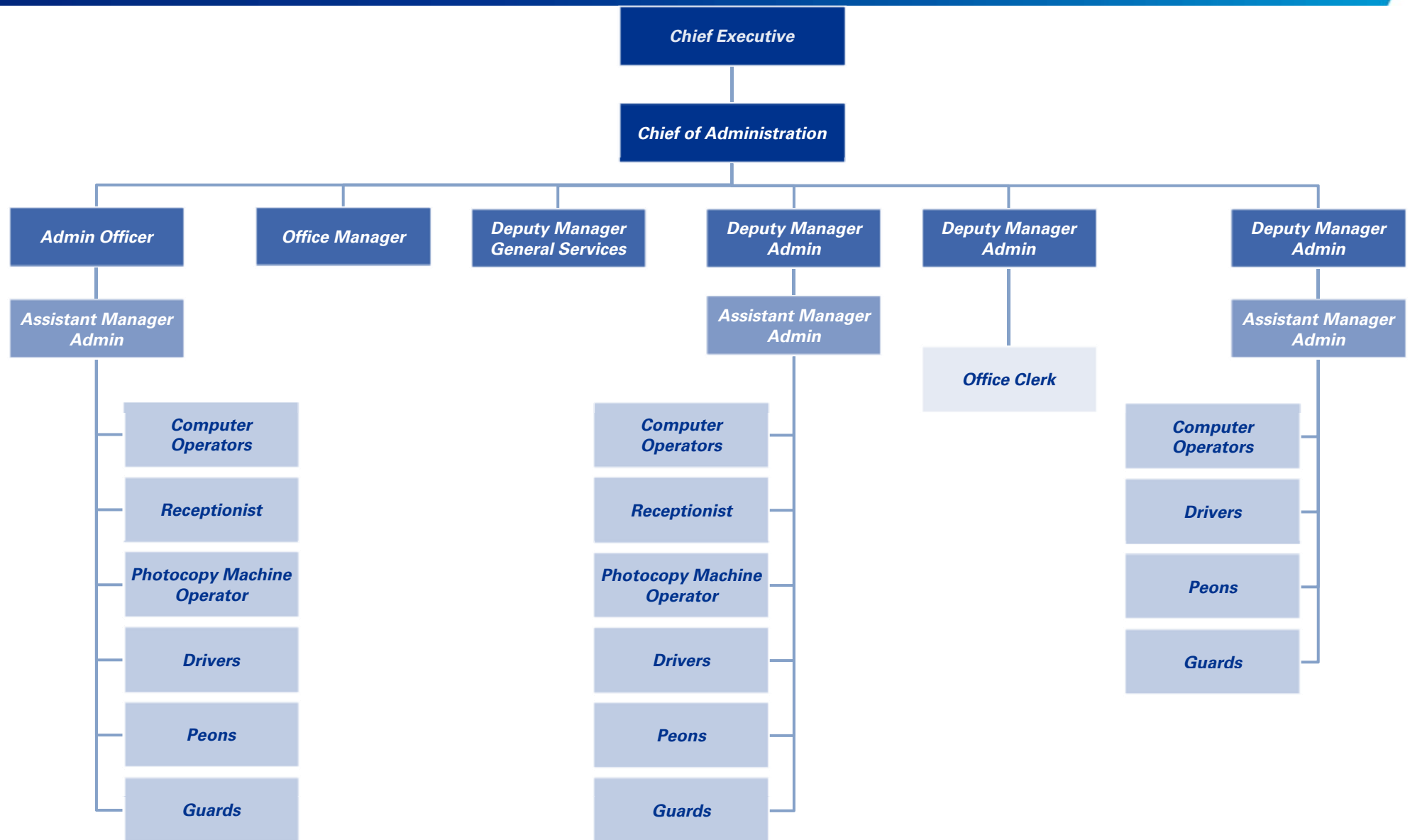
I) Winding up:

- If the company is wound up, the liquidator may, with the sanction of Special resolution of the Company and any other sanction required by law, divide amongst the members in specie or kind the whole or any part of the assets of the company.

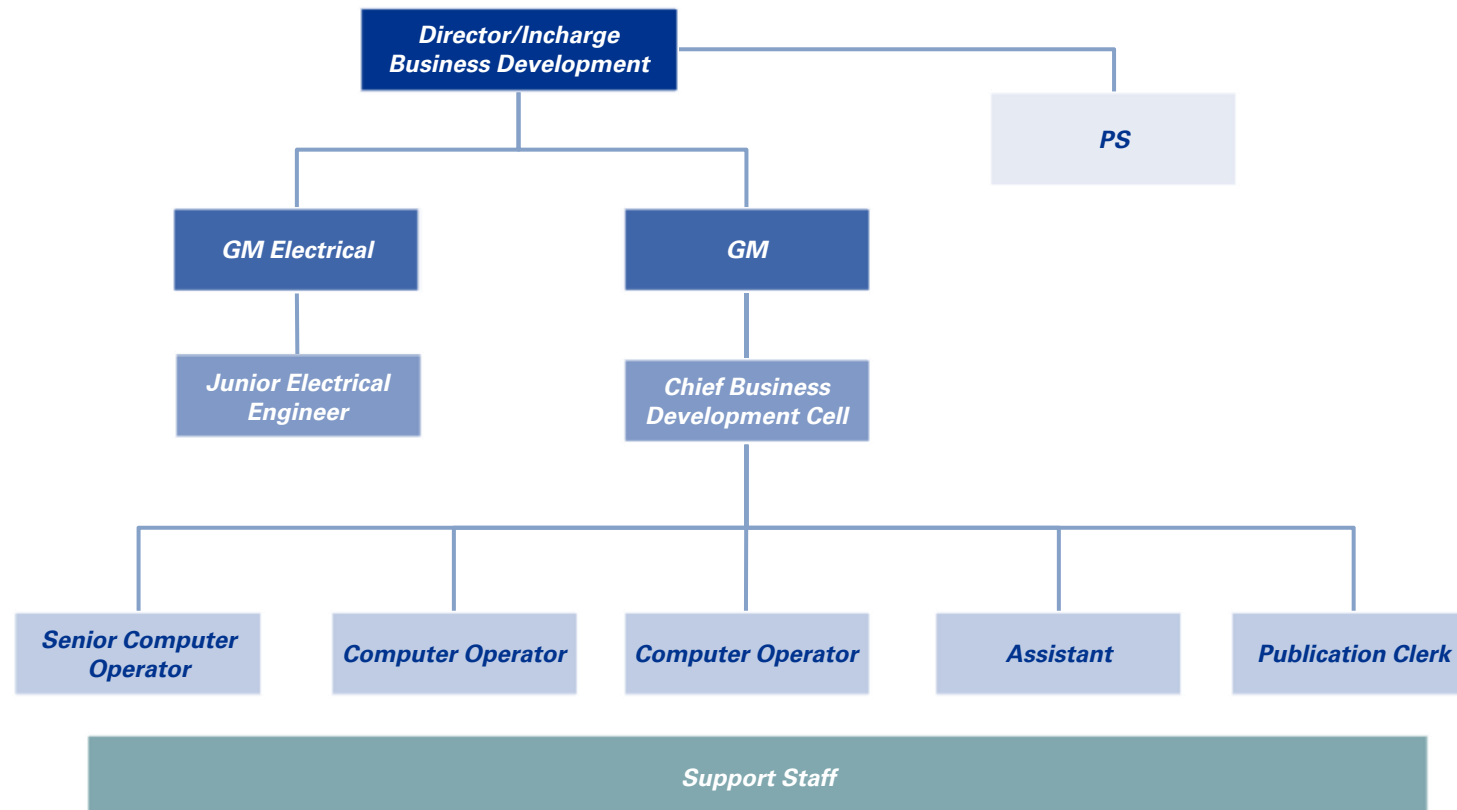
J) Secrecy

- Every Director, Manager, adviser, auditor, trustee, member of a committee, officer, servant, agent, accountant, or other person employed in the business of the company shall, if so required by the directors before entering upon his duties, sign a declaration pledging himself to observe a strict secrecy respecting all transactions of the company with its customers and the state of account with individuals and in matters relating thereto, and shall by such declaration pledge himself not to reveal any of the matters which may come to his knowledge in the discharge of his duties except when required to do so by the directors or a court of law.
- No member or other person (not being a director) shall be entitled to enter upon the property of the company or examine the company's premises or properties without the permission of a director.

Annexure K Administration Structure



Annexure L Business development Structure



Annexure M

Synopsis of business transfer agreement

- A) Date of Agreement:** 1st July, 2010
- B) Parties to the agreement:** M/S National Development Consultants ("NDC"), A Partnership registered under Partnership Act 1932 and M/S National Development Consultants (Pvt.) Ltd, Incorporated under the Companies Ordinance, 1984.
- C) Objective:** To take over the business of the "Partnership" M/s. National Development Consultants by the "Company" M/S. National Development Consultants (Pvt.) Ltd. Including Assets, Liabilities, Goodwill, and rights, belongings or appurtenances as per Schedule A.
- D) Consideration:** PKR. 60 Million (US\$ 0.69 million)

E) Major Terms of the agreement

- Any net assets over and above the total value of shares (PKR 60 million, US\$ 0.69 million) has been settled as given in Schedule-C and remained with the "Partnership" which the parties hereby acknowledged.
- Assets and liabilities have been handed over to the Company by the partners of the "Partnership" after taking over share certificates in accordance with Schedule B..
- The partners of the Partnership have assured the Company that the transferred assets are free from encumbrances.
- The Company is responsible for all duties, commitments and obligations (present or future, actual or contingent) arising out of any contract or otherwise whatsoever of the Partnership.
- The Company being the owner of said Assets, and Liabilities is hereby authorized to use, repair, mortgage, pledge, transfer and sell the Assets and Liabilities in whatever manner it likes.
- That the Company shall obtain/renew all registrations, NOCs and allied documentation with all departments on its own behalf
- That the expenses for preparation of the Agreement, cost of stamps, registration charges shall be borne by the Company.
- That the Company shall be responsible for the liabilities, payments of all types of dues of Partnership that accrue, arise, arrears including taxes, rents, rates, water charges, electricity, telephone and gas charges, vehicle expenses, etc. And the Partnership will not be held responsible for any future liability after 30th June, 2010.
- That the said Assets and Liabilities (Schedule-A) shall be quietly entered into and upon, held and enjoyed the benefits received there from by the company without any interruption or disturbance by the Partnership or any person claiming through or under it and without any lawful disturbance or interruption by any other person whomsoever.
- That, this Agreement set forth the entire Agreement between the Parties relating to the subject matter hereof and stands in the place of any pervious Agreement, whether oral or in writing.
- That, this Agreement shall ensure the benefits of and be binding upon the respective heirs, executors, administrators and assigns of each of the Parties hereto.
- That all claims and disputes between the parties hereto arising out of or in connection with this Agreement shall be discussed by the parties in efforts to amicably resolve the same or as needed under the Arbitration Act 1940.
- That, this agreement constitutes the entire Agreement among the Parties and except as herein stated and in the instruments and documents to be executed and delivered pursuant hereto, contains all of the representations and warranties of the respective Parties. There are no oral representations or warranties by the Parties of any kind. This agreement may not be amended or modified in any respect except by written instrument signed by both parties.

Annexure M

Synopsis of business transfer agreement – contd..

Schedule - A		
Financial Statements		
National Development Consultants (Private) Limited		
1 July 2010		
CURRENT ASSETS		
Cash in hand		627
Bank Balances		275,480
		276,107
FIXED ASSETS		
Furniture, Fixtures & Fittings		10,924
Office Equipments		29,256
Motor Vehicles		22,955
Electric Diesel Generators		9,596
		72,730
TOTAL		348,837
LIABILITIES		
Liabilities		-
PARTNER CAPITAL		
Engr. Barkat Ali Luna - Chairman		87,209
Engr. Ch. Ghulam Hussain - Managing Partner/CEO		87,209
Engr. Ijaz Ahmed Khan - Partner/Director		87,209
Engr. Ch. Foad Hussain - Director		87,209
		348,837
TOTAL LIABILITIES & CAPITAL		348,837
Schedule - B		
Name of Shareholder	No. of Shares	Value US\$ million
Mr. Engr. Mian Barkat Ali Luna	150	0.17
Mr. Engr. Ch. Ghulam Hussain	150	0.17
Mr. Engr. Ijaz Ahmad Khan	150	0.17
Mr. Ch. Foad Hussain	150	0.17
Total	600	0.70

Schedule - C	
National Development Consultants Registered	
1 July 2010	
USD	
CURRENT ASSETS	
Bank Balances	559,771
Term Deposits	654,097
Securities/Deposits	3,081
Advances / Staff Imprests	581
Income Tax Refunds	28,380
Retention Money Receivables	53,545
Advances to PM/JV	563,334
	1,862,789
FIXED ASSETS	
Motor Vehicles	56,960
Land	16,845
	73,805
TOTAL	1,936,594
LIABILITIES	
Social Charges payable	128,719
Bonus Payable (for 2009-10)	122,665
Payable to Legal Heirs	155,476
Mob. Adv./ R. Funds Payables	172,364
Payable to JV & Others	5,707
	584,930
PARTNER CAPITAL	
Engr. Barkat Ali Luna	450,688
Engr. Ch. Ghulam Hussain	451,129
Engr. Ijaz Ahmed Khan	449,847
	1,351,664
TOTAL LIABILITIES & CAPITAL	1,936,594

Annexure N

Synopsis - Minutes of Meetings - Board of Directors

1). Summary of major issues identified in BoD meeting dated 06 & 13 July 2011.

A) Project Issues

i) Project name: Four Small Dams Project - KP

- a) **Barganatu Dam:** No payment was received by the consultants because of non receipt of funds from the Govt. For the year ending June 30,2011. Necessary steps deemed required were taken and provision is expected to be included in the 2011-2012 PSDP budget through which payments are expected to be released.
- b) **Jabba Khattak Dam:** No payment was received due to damage the dam spillway had suffered during the 2010 floods. New design drawings for the repair work will be provided.
- c) **Khair Bara Dam:** Full payment was not yet received from the client.

ii) Project Name: FATA Small Dams Project

- Deliverables of the Chao Tangi dam were submitted to the client but the client was not willing to pay for around 70% of the work done due to reservations about the design of the spill way and its high cost. It was decided that a cheaper alternative would be used in the design of the dam. The changes were submitted for client approval

iii) Project Name: NDC House Project

- As per briefing made by Engr. Foad Hussain, it was stated that serious mistakes were made by the in charge of the paint activity. Moreover, major delays were seen in procurement with several items pending since three months. Additional staff and replacements were requested by Engr. Foad Hussain.

B) Pending Payments

- It was observed that during the last five weeks (1-06-11 to 06-07-11) Rs. 65.380 million were recovered whereas Rs. 345.500 million still remained outstanding as a receivable. It was determined that recovery efforts were extremely inadequate. It was recommended project coordinators take up the issue to expedite recovery.

C) Misc Items

- A complaint was lodged with the BOD that salaries of CSFPW Project-Sindh have not been paid in time. The claim however was refuted by the Chairman, though an enquiry was ordered to be carried out to pinpoint the fault and correct the situation

2). Summary of major issues identified in BoD meeting dated 01 June 2011

A) Project Issues

i) Project Name: Gomal Zam Dam

- A detailed presentation was given to the board by Engr. Mirza M. Sadiq (Advisor) regarding a seepage problem at the dam and possible remedial measures. A plan was already discussed with the Chinese contractors.

ii) Project Name: Small Dams Project (FATA)

- It was note that the implementation period of the project was 18 months. This period was further extended by 14 months but the project work was still not complete. An extension approved by the BoD had expired at 31-05-2011. The chairman recommended that project staff should be laid off except for some skeleton staff who should continue for 15 days up to 15-6-2011 in order to finish the deliverables for the client. The recommendation was approved by the board.

iii) Project Name: NDC House Project

- It was observed there were problems with the electricity connection. The temporary connection in use had in fact not been approved by the department. Furthermore, electricity bills were issued under the name of the previous owner using industrial rates. NDC house is a commercial office, rates applicable being higher then the ones applicable to industries. It was also determined an amount of Rs. 400,000 (US\$ 4,651) paid by NDC was unaccounted for by the department.

Annexure N

Synopsis - Minutes of Meetings - Board of Directors – contd..

B) Pending Payments

- It was observed that during the last four weeks (27-04-11 to 01-06-11) Rs. 63.783 million (US\$ 0.74 million) were recovered whereas Rs. 363.371 million (US\$ 4.23 million) still remained outstanding as a receivable. It was determined that recovery efforts were extremely inadequate. It was recommended project coordinators take up the issue to expedite recovery.

C) Professional Services to be obtained from Kamran & Company

- It was discussed that Audit and Assurance, Corporate Consulting, Compliance & Reporting and Corporate Taxation services will be obtained from Kamran & Company where as fee of Rs. 100,000 (US\$ 1,163) would be paid for all three services.

3) Summary of major issues identified in BoD meeting dated 27 April 2011

A) Pending Payments

- It was observed that during the last three weeks (5-04-11 to 27-04-11) Rs. 18.884 million (US\$ 0.22 million) were recovered whereas Rs. 372.361 million (US\$ 4.33 million) still remained outstanding as a receivable. It was determined that recovery efforts were extremely inadequate. It was recommended project coordinators take up the issue to expedite recovery.

4) Summary of major issues identified in BoD meeting dated 06 April 2011

A) Project Issues

i) Project Name: Tank Zam Dam and Hingol Dam

- It was noted that no payments were received from the client (WAPDA).

ii) Project Name: FSDP-KPK

- It was observed that a letter was received from the Small Dams Organization Peshawar blaming the consultants for miserably failing in satisfying their contractual obligations. The claims were refuted and two letters were sent to the SDO stating facts, figures and documents on record. Further more it was emphasized that consultancy services were terminated on 15-1-2010 much in advance of the completion date. Despite not being their consultants, co-operation was still provided to complete the balance work of the project as assigned. This was deemed necessary for recovery of the large amount pending from the client.

iii) Project Name: SDP (Fata)

- It was observed that work on the Chao Tangi Dam and Sheen Kuch Dam was pending and that the deadline would not be met under current arrangements. As such the work of Sheen Kuch Dam was decided to be transferred to the Dams Division for completion on time.

B) Pending Payments

- It was observed that during the period, 9-02-11 to 05-04-11, Rs. 49.964 million were recovered. It was determined no efforts were being made for recovery. It was recommended project coordinators take up the issue to expedite recovery.

5) Summary of major issues identified in BoD meeting dated 09 & 10 February 2011.

A) Project Issues

i) Project Name: FATA Small Dams Project

- It was observed that a 3 months extension was approved for the project due to pending work and that no further extensions would be available.

B) Pending Payments

- It was observed that during the period, 29-12-10 to 08-02-11, Rs. 74.861 million (US\$ 0.87 million) were recovered. It was determined no efforts were being made for recovery. It was recommended project coordinators take up the issue to expedite recovery.

Annexure N

Synopsis - Minutes of Meetings - Board of Directors – contd..

6) Summary of major issues identified in BoD meeting dated 29 December 2010 & 01 & 06 January 2011

A) Project Issues

i) Project Name: Fata Small Dams Project

- It was observed that the project is running in a loss (Rs. 3.3 million) (US\$ 0.04 million).

ii) Project Name: NDC House

- It was observed that the project has been delayed by 10 months based on the original proposed schedule in light of cumulative delays till date. It was also noted that a security breach had occurred on site and that security gunmen would need to be hired.

B) Pending Payments

- It was observed that during the last three months (29-09-10 to 29-12-10) Rs. 53.558 million (US\$ 0.62 million) were recovered. It was determined that no efforts were being made for recovery of due amounts. It was recommended project coordinators take up the issue to expedite recovery.

7) Summary of major issues identified in BoD meeting dated 29 September 2010

A) Project Issues

i) Project Name: FATA Small Dams Project

- It was observed that extensions were granted by the client (10 months for Package-III and 12 months for Package-IV) without additional funds. A committee was formed by the client for consideration of additional costs. However no meeting has been held since March 2010. Due to funding issues it has become impossible to continue operation of the project office.

ii) Project Name: FSDP-KPK

- It was observed that a letter was received from the Small Dams Organization Peshawar blaming the consultants for miserably failing in satisfying their contractual obligations. The claims were refuted and two letters were sent to the SDO stating facts, figures and documents on record. Further more it was emphasized that consultancy services were terminated on 15-1-2010 much in advance of the completion date. Despite not being their consultants, co-operation was still provided to complete the balance work of the project as assigned. This was deemed necessary for recovery of the large amount pending from the client.

iii) Project Name: Danish Schools

- It was observed that design work had been completed for the project and bills had been issued. However due to only receiving part payment, further work on the project was suspended.

B) Pending Payments

- It was observed that Rs. 42.480 million (US\$ 0.49) were recovered. It was determined no progress was being made in regards to recovery of loans to various projects. It was recommended project coordinators take up the issue to expedite recovery.

Annexure O

Projects completed during last three years

Sr.	Description	Broad division of project	Start	Completed	Total Consultancy Fee Rs. Million
1	Detailed architectural and engineering design for establishment centres of excellence, school at gov. boys high school, Jaranwala, District Faisalabad	Building	2011	2011	1
2	Kot murtaza barrage detail design and construction supervision a part of gomal zam dam multipurpose project	Dam	2002	2011	120
3	Gandao Dam Project	Dam	2008	2011	18
4	Hingol Dam Project	Dam	2006	2011	67
5	Water conservation and productivity enhancement through high efficiency irrigation systems includes checking of design	Irrigation	2008	2011	393
6	Balochistan effluent into RDBO (RDBO-III) project	Irrigation	2004	2011	56
7	Kachhi Canal Project	Irrigation	2003	2011	247
8	RBOD - I Project	Irrigation	2004	2011	56
9	Detail design and construction of four dams	Dam	2005	2010	46
10	Taunsa barrage emergency rehabilitation and modernization project	Irrigation	2005	2010	182
11	Third party monitoring and evaluation of implementation of M&R works fiscal years 2008-10	Other	2009	2010	85
12	Rawalpindi environmental improvement project	Other	2006	2010	176
13	Punjab road sector devepment project design review and construction supervision	Roads	2005	2010	179
14	Detailed design consultancy of islam barrage	Barrage	2007	2009	37
15	Feasibilty study for construction of small dams on nai baran, nai sann and other nai's in kithar range	Dams	2007	2009	16
16	New khanki barrage with storage and power	Hydropower	2008	2009	27
17	Feasibility study for enhancing the capacity charrar drain to cater for rain water of ring road	Roads	2008	2009	3
18	D.G khan to Rajanpur road project	Roads	2004	2009	21
Total					1,728

Annexure P Ongoing Projects

Ongoing Projects

A) NDC as a Lead Firm

Projects	Professional Staff	Support Staff	Nature of Services	Total Fee US\$ Million	Client	Start Date	End Date	Status	Broad Division	Coordinator
Harpo Hydropower project	12	7	Updation/review of Feasibility Study	70	WAPDA	2010	2011	O	H	FOD
Tank Zam Dam Project	15	8	Engineering Design & Tender Documents	46	WAPDA	2010	2011	S	D	CGH
Darawat Dam Project	20	36	Management Consultancy services for engineering, procurement and Construction Supervision	223	WAPDA	2010	2013	O	D	CGH
Gomal Zam Dam Multipurpose project	7	11	Management Consultancy Services	145	WAPDA	2002	2011	O	D	CGH
High Head Hydropower Project	12	14	Phase 1 Evaluation of Bids and Award of Contracts, Phase 2 Monitoring, Coordination and approval of Construction Design and Preparation of Go-Ahead Orders on-behalf of Client for implementation. Phase 3 Inspection of Works, Construction Supervision and Progress Monitoring, Contract Administration and Control. Phase 4 Supervision of Installation, Commissioning and Acceptance Tests. Phase 5 Training of Personnel, Maintenance, Completion Reports, As Built Drawings and Manuals.	767	WAPDA	2002	2011	O	H	IAK
Four Small Dams Project (NWFP)- Barganatu, Khair Bara, Maroobi and Jabba Khattak	0	0	Detail Design and Construction Supervision	46	Government of KP	2005	2011	C	D	BAL
FATA Small Dams Project - Package III (Khan Kot Dam, Kundiwan Dam, Shuza Dam, Parwara Dam, Dana Dam and Kuhi Bahara Dam)	4	7	Feasibility Report, Engineering Design & and Preparation of PC-1	48	FDA	2008	2011	S	D	BAL
FATA Small Dams Project - Package IV (Machi Khel Dam, Tarkhobai Dam, Sarobai Dam)	9	8	Feasibility Report, Engineering Design & and Preparation of PC-1	23	FDA	2008	2011	S	D	BAL
Gandao Dam Project	0	0	Review of Feasibility Report	18	FDA	2008	2011	C	D	BAL
Hingol Dam Project	0	0	Project Planning Report, Engineering Design and Tender Documents.	67	WAPDA	2006	2011	C	D	CGH
Yemen Flood Project	0	0	Preparation of Detailed Plans, Design and Bidding Documents	78	Ministry of Public Works and Highways Republic of Yemen	2009	2011	O	I	IAK

Annexure P Ongoing Projects – contd..

Ongoing Projects - contd..

A) NDC as a Lead Firm - contd..

Projects	Professional Staff	Support Staff	Nature of Services	Total Fee US\$ Million	Client	Start Date	End Date	Status	Broad Division	Coordinator
NPIW Balochistan Project	12	0	Engineering Design	58	Government of Balochistan	2005	2011	O	I	BAL
RRIDS Project	5	0		238	Government of Sindh	2004	2011	O	I	BAL
Patfeeder Canal Project	15	17	Engineering Design and Construction Supervision	65	Government of Balochistan	2005	2011	O	I	BAL
RBOD III Project	0	0	Engineering Design, Tender Documents and Construction Supervision	56	WAPDA	2004	2011	C	I	CGH
RBOD - I Project	0	0	Engineering Design, Tender Documents and Construction Supervision	56	WAPDA	2004	2011	C	I	CGH
PGMI-General Hospital Lahore Project	0	0	Resident Supervision	13	Government of Punjab	2010	2011	S	B	CGH
Third party validation project II	4	2	Third party Validation	3	Government of Punjab	2011	2013	O	I	CGH
Third party validation project III	25	32	Third party Validation	2	Government of Punjab	2011	2013	O	I	CGH
Third party validation project IV	0	0	Third party Validation	3	Government of Punjab	2011	2013	N	I	CGH
Daanish School System Project 7 Schools	0	0	Architectural and Engineering Design	21	Government of Punjab	2010	2011	S	B	CGH
Total	140	142		2,044						

B) NDC as a Sole Firm

Papin Dam Project	0	0	Design Drawings, Project Report	15	WAPDA	2009	2011	S	D	CGH
Construction supervision of Flood Works in Sindh	140	72	Construction Supervision of flood damages	100	Government of Sindh	2011	2011	O	I	BAL
Public Health Engineering (North Zone) Project	13	11	Resident Supervision	43	Government of Punjab	2009	2011	O	PHE	CGH
Public Health Engineering (South Zone) Project	5	5	Resident Supervision	14	Government of Punjab	2009	2011	O	PHE	CGH
Total	158	88		173						

Annexure P

Ongoing Projects – contd..

Ongoing Projects - contd..

C) NDC as an Associate

Projects	Professional Staff	Support Staff	Nature of Services	Total Fee US\$ Million	Client	Start Date	End Date	Status	Broad Division	Coordinator
Keyal Khwar Hydropower Project	10	5	Engineering Design and preparation of Tender Documents (Phase 1), Construction supervision (Phase 2)	1,259	WAPDA	2010	2016	O	H	FOD
Diamer Basha Dam Project (4500 MW).	13	0	Feasibility Report, Engineering Design & Tender Documents	886	WAPDA	2005	2011	O	D	CGH
Neelum Jhelum Hydropower Project	45	0	Design Review, Contract Management and Construction Supervision	4,071	WAPDA	2008	2017	O	H	FOD
Jinnah Hydropower Project	1	0	EPC Turn Key Basis/ Review/Updation design, Monitoring/Construction Supervision and Contract Administration.	199	WAPDA	2005	2011	O	H	CGH
Amandara Headworks USC - Package 2	4	0	Engineering Design & Construction Supervision of Flood Damages	42	Government of KP	2011	2011	O	I	CGH
Northern Irrigation Circle mardan Package 5	0	0	Engineering Design & Construction Supervision of Flood Damages	38	Government of KP	2011	2011	O	I	CGH
Lower Bari Doad Canal Improvement Project Package 03	6	6	Ground Water Monitoring, Modelling and Management for Supporting PMU	61	Government of Punjab	2011	2013	O	I	IAK
Project Management Unit Support of Lower Bari Doab Canal Improvement Project Package 2	2	2	PMU support	233	Government of Punjab	2008	2013	O	I	CGH
Greater Thal Canal	0	0		48	Government of Punjab	2009	2013	S	I	BAL
Kachhi Canal Project	0	0	Engineering Design and tender Documents	247	WAPDA	2003	2011	C	I	BAL
Lower Chenab Project Part B	20	11	Engineering Design and Supervision	630	Government of Punjab	2007	2011	O	I	CGH
University of Agriculture Faisalabad	5	0	Engineering Design and Top Supervision	4	Agriculture University	2011	2011	O	B	FOD
RBOD I & III Flood works project	5	11			WAPDA	Contract Not signed		O	I	CGH
Total	111	35		7,719						

Annexure P

Ongoing Projects – contd..

Ongoing Projects - contd..		
Total	409	265
9,935		
Abbreviations		
O	Outstanding	
N	Not Started yet	
S	Suspended	
C	Work Completed / Dues pending	
B	Buidling	
D	Dams	
H	Hydropower	
I	Irrigation	
PHE	Publich Health Engineerings	
CGH	Mr. Ch. Ghulam Hussain	
IAK	Mr. Ijaz Ahmed Khan	
BAL	Mr. Barkat Ali Luna	
FOD	Mr. Ch. Foad Hussain	

Annexure Q

Distribution of work among accountants

Distribution of work among accountants			
Accountant	No. of Project	US\$ in Million	Support staff
Ashraf	1	78	2
Bilal	4	162	1
Imran	11	1,319	1
Jasir	6	756	3
Qadeer	3	4,957	1
Rana Azim	6	649	0
Salman	1	1,259	0
Zaheer	6	756	1
Grand Total	38	9,935	9

Annexure R

Adequacy of qualifications of staff

Title	Qualification required	Name	Qualification	Experience in NDC	Total Experience
Chief of Administration	Graduation or Equivalent with 30 years experience	Ch. Sher muhammad	Under graduate	24 years	68 years
General Manager Finance and Accounts	MBA/ICMA/M.Com or Equivalent	Haroon Rashid	MBA	5 years	36 years
Manager Accounts	ACA/ or ACMA Or B.Com	Muhammad Ashraf	B.Com	14 years	25 years
Manager Audit	ACA/ or ACMA Or B.Com	Arif Ali	MBA Finance	15 years	19 years
Manager Finance and Taxation	ACA/ACCA Articles or ACMA/M.Com/B.Com	Javed basit chishti	ACCA part Qualified	6 years	43 years
Assistant Manager Accounts	ACA/ or ACMA Or B.Com	Syed Jasir Saqlain	B.Com	13 years	13 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Muhammad Azam Khan	MA Political science	7 years	21 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Muhammad Imran	B.Com	6 years	6 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Qadeer Asif (Junior Accountant)	LLB and B.Com	6 years	8 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Salman saeed (Assistant Accountant)	B.Com / MBA (in progress)	2.5 years	2.5 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Muhammad Bilal (Assistant Accountant)	B.Com	4 years	4 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Muhammad Bilal (Accounts officer)	B.Com / MBA (in progress)	5 years	5 years
Senior Accountant/Accountant	B.Com with 3-4 years of post qualification experience for Accountant and 4-5 years for senior Accountant OR ICMA/ICA with 2-3 parts of examination completed OR SAS	Muhammad Zaheer (Accountant)	Intermediate	13.5 years	18 years
Advisor ISO cell	B.Sc civil engineer, membership of professional institutions, registration with Pakistan Engineering Council with 40 years experience.	Engr. Mirza M. Sadiq	B.Sc Civil Engineering	6 years	58 years

Annexure S

Key management profiles viewed

S.No	Name	Designation	Qualifications	Experience (Years)		Major Engagement Areas
				External	With NDC	
1	Najeeb-ur-Rehman Qureshi	Principal Survey Engineer	- B.Sc Civil Engineering - University of Engineering and Technology, Lahore - Various other trainings	15	5	- Lahore Bye Pass project - Lahore to Islamabad Motorway - Topographic, Bathymetric and Cross-section survey, Taunsa Barrage
2	Ibrarul Hassan Khan	Chief Geologist	- M.Sc Geology - Institute Geology, Punjab University, Lahore - B.Sc Geology - Institute Geology, Punjab University, Lahore - Various other trainings	28	4	- Geological Work at; - Diamer-Basha Dam - Keyal Khwar Project - Mirani Dam
3	Dr. Muhammad Yunus Khan	Hydrology and Sedimentation	- Ph.D Water Resources and Soil Engineering - Iowa State University, Ames USA - M.Sc Water resources- Iowa State University, Ames USA - B.Sc Civil Engineering - University of Engineering and Technology, Lahore	45	4.5	- Irrigation and Drainage projects - Kalabagh Dam/ Hydro-electric Project
4	Rana Muhammad Saeed Ahmad Khan	Water Supply and Sewerage Specialist	- B.Sc Civil Engineering - Punjab University - Post Graduate Fellowship (Environmental Engineering) Ontario, Canada - Post Graduate Course (Water Works Engineering) Japan - Various other trainings	40	16	- Ground Water investigation - Water supply and Sanitation system
5	Saleem Akhtar Kasmani	Highway and Bridge Engineer	- M.Sc Highway Engineering - University of Birmingham, UK - B.Sc Civil Engineering - University of Engineering and Technology, Lahore - Various other trainings	40	9	- Design and Construction supervision of Bridges, Hydraulic structures and Cross-Drainage structures
6	Altaf Hussain Shaheedi	Highway Engineer	- M.Sc Highway and Transportation Engineering - University of Birmingham, UK - B.E Civil Engineering - NED University Karachi - Various other trainings	40	6.5	- Principal Road Engineer Keyal Khwar Hydropower Project - Diamer Basha Dam Project
7	Mirza Muhammad Sadiq	Quality Management Specialist	- B.Sc Civil Engineering - Punjab University - Post Graduate Specialized Training in Hydraulic Engineering, Ontario, Canada	52	6	- Project Quality Management - External Quality Audits - Contract Administration
8	Abdul Latif	Contract Expert	- B.Sc Civil Engineering - University of Engineering and Technology, Lahore - PGD in Law's DIPL Punjab University Lahore	38	5	- International and Local Procurement Procedures and Contractual matters
9	Dr. Muhammad Afzal Chaudhry	Environment Specialist	- Ph.D Makerere University Kampala, Uganda - MBA Resource Marketing and Management, PIRSA University - M.Sc Forestry, Ecology - University of Peshawar	40	6	- Forestry Development Projects - Environment and Social Impact Assessments
10	Dr. Momin Awan	Head Transmission Line System	- Ph.D in Electrical Engineering, Bradford University UK - MS Electrical Engineering - Addison State University, Canada - Graduate IEE, University of Glasgow, England	20	4	- Feasibility reports for Transmission Lines / Grid Stations
11	Masud Hayat Uppal	Water Resources / Irrigation Specialist	- B.Sc Civil Engineering - Punjab University, Lahore	54	1.5	- Quality Assurance and Technical Advice - Feasibility Study for Pat Feeder Canal
12	Haroon Rasheed	GM Finance & Accounts	- MBA United States of America - CSS Federal Public Services Commission - L.L.B Punjab University - MA Punjab University	32	5	- Supervision of finance & accounts of the company - Oversight of corporate affairs of the company - Supervision of the tax affairs of the company
13	Ch. Fiaz Ahmad	Head of Business Development Division	- MSc - GC University, Lahore - MBA in Human Resource Management - Preston University, Pakistan - Various other trainings	5	17	- HR Management/Recruitment of Staff - Educational Trainings of Professionals

Annexure S

Key management profiles viewed – contd..

S.No	Name	Designation	Qualifications	Experience (Years)		Major Engagement Areas
				External	Within NDC	
1	Zahur Ahmed Mughal	Associate / Water resources Development / Dam Expert	- B.Sc (Wales), Civil Engineering - 1959 University college, Cardiff, Wales, UK. - Chartered Engineer (U.K) Equivalent to M.Sc Engineering - Various other trainings	23.5	22.5	- Various Civil Engineering Projects including design and construction of barrages, link canals and Water resources Dams.
2	Riaz Nazir Tarar	Associate / Dam Hydropow er Expert	- B.Sc Civil Engineering - College of Engineering and Technology, Lahore, Punjab - Various other trainings	45	13	- Experience in the fields of Dams, Hydropow er, Irrigation and training of higher level professionals.
3	Malik Ahmad Khan	Associate / Water Resources / Dams Construction Mangement Expert	- B.Sc Civil Engineering from West Pakistan University of Engineering and Technology	38	8	- Experience of Irrigation systems and Barrages design; operation and maintenance - Dam design and construction
4	Muhammad Idris Rajput	Associate / Water Resources Expert	- B.E (Civil) - University of Karachi - Various other trainings	37	5	- Revamping / Rehabilitation of Irrigation and Drainage system
5	Syed Mansoob Ali Zaidi	Head Irrigation Engineering	- B.Sc Civil Engineering - University of Punjab, Lahore - Advance course in Construction Engineering and Management - Various other trainings	39	14	- Irrigation system design and Construction Management - Rehabilitation and Modernization of Taunsa Barrage project

Annexure S

Key management profiles viewed – contd..

S.No	Name	Designation	Qualifications	Experience (Years)		Major Engagement Areas
				External	Within NDC	
1	Barkat Ali Luna	Chairman Board of Directors	- Post Graduate course in Land Drainage, Holland - B.Sc Civil Engineering - University of Punjab, Lahore	26	33	- Design, Construction and Maintenance of Irrigation Systems - Hydraulics Divisions, Kalabagh Dam Project
2	Ch. Ghulam Hussain	Chief Executive	- M.Sc Civil Engineering - B.Sc Civil Engineering	9	24	- Design, Construction Supervision and Quality control in Highway Projects - Advisor for Dams, Barrages, Hydropower, Roads and other Important Projects
3	Ch. Foad Hussain	Director	- M.Sc Civil Engineering - University of Minnesota USA - B.Sc Civil Engineering - University of Engineering and Technology, Lahore	0	9	- Hydraulic design, Sedimentation and Physical/Numerical Modelling - Spillway Design and various components of Dams and Barrages
4	Ijaz Ahmad Khan	Director	- B.Sc Engineering Mining - University of Engineering and Technology, Lahore - Various other trainings	32	11	- Evaluate Technical Proposals for Mega Projects - Procurement Consultant and Contract Specialist

Annexure T

Procurement policies compliance

Sr. No.	Head of Account	Item	Amount	Requisition raised by the relevant person/ department	Purchase Requisition approved by relevant authority	Item appearing on List of purchases for approval from Chief Executive	Three Quotations for items having value greater than Rs. 2,000	Comparative statement prepared by Purchase committee	Comparative statement signed by members of PC and approved by Chief Executive	Supply Order issued to the approved supplier	Bills verified by Office Manager	Goods entered in the stock register	Withholding Tax deducted	Remarks
1	Computers	LCD 17 Inch	6,750	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	
2	Computers	LCD 17 Inch	6,500	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	
3	Furniture and Fixtures	Water Pump	5,750	✓	✓	✗	✓	✓	✓	✗	✓	✓	✗	
4	Motor Vehicle	Suzuki Alto	685,000	✗	✗	✗	✗	✗	N/A	✗	✗	✗	✗	The cheque was signed for by the CEO. No documentation was attached
5	UPS/ Stabilizer	UPS 650va	5,790	✗	✗	✓	✓	✓	✓	✗	✓	✓	✗	Lowest bidder was Future technologies. However the delivery challan was from Systek. The invoice was from S.M Systems. The cheque was to Future technologies. In all cases the amount matched
6	Office Equipments	Binding Machine	58,000	✗	✗	✗	✗	✓	✓	✗	✓	✓	✓	No quotations and requisition was attached.
7	Furniture and Fixtures	Assorted Furniture	46,000	✗	✗	✗	✗	✓	✓	✗	✓	✓	✓	No quotations and requisition was attached.
8	Computers/ Printers	Computer	31,088	✗	✗	✓	✗	✓	✓	✗	✓	✓	✓	No quotations and requisition was attached.
9	Mobile Phones	Nokia E5	21,830	✗	✗	✗	✗	✗	N/A	✗	✓	✓	✓	No quotations, requisition, prior approval form and comparative statement was attached.

Annexure U

Issues raised by Internal Auditor – Finance

Internal Audit reports - issues raised by the Internal auditor

Date of Audit	Internal Audit Report No.	Projects Audited	Issues
30 Mar'11 to 14 Apr'11	21	Hingol Dam Tank Zam Dam Papin Dam Darw at Dam	<ul style="list-style-type: none"> - Late submission of invoices to the client - Large amount of unutilized cash balances - Non-reimbursable expenditure incurred without due care resulting in unnecessary charge of non-reimbursable expenditure to the project - Loan given by NDC to the project amounting to Rs. 10.8 million receivable even after completion of the project - Amounts withheld by clients not released after site completion - For time sheet relating to NDC, claim was raised for another JV partner - Cash book not properly maintained - Ledgers were not properly maintained - Bills passed for payment without incorporating relevant information - Log book for use of vehicles was not properly maintained
25 Jun'09 to 02 Jun'09	18	Extension of Patfeeder canal	<ul style="list-style-type: none"> - Non-reimbursable expenditure incurred without due care resulting in unnecessary charge of non-reimbursable expenditure to the project - Invoices amounting to Rs. 27.4 million not paid by the client - Loan given by NDC to the project amounting to Rs. 8.7 million outstanding - Direct costs amounting to Rs. 0.56 million withheld by client while making payment - Vouchers were not prepared properly - Bills passed for payment without incorporating relevant information - Log book for use of vehicles was not properly maintained
18 Aug'09 to 22 Aug'09	19	Hingol Dam	<ul style="list-style-type: none"> - Large amount of unutilized cash balances - Non-reimbursable expenditure incurred without due care resulting in unnecessary charge of non-reimbursable expenditure to the project - Loan given by NDC to the project amounting to Rs. 2.3 million outstanding - Direct costs amounting to Rs. 2.4 million withheld by client while making payment - Billing not in accordance with the time sheets, excess amount charged to client - Log book for use of vehicles was not properly maintained - Ledgers were not properly maintained - Cash book not properly maintained - Vouchers were not prepared properly - Expenses at field office and rent a car expenses were made on photo copy bills

Annexure U

Issues raised by Internal Auditor - Procurement

Internal Audit reports - issues raised by the Internal auditor

Date of Audit	Internal Audit Report No.	Projects Audited	Issues
30 Mar'11 to 14 Apr'11	21	Hingol Dam Tank Zam Dam Papin Dam Darw at Dam	<ul style="list-style-type: none"> - Quotations not called for purchases exceeding Rs. 2,000 - Comparative statements not prepared in some cases - Payments made without approval of Purchase Manager - Prior approval for purchases not obtained from Project Manager - Petrol for Generator purchased despite CNG kit attached
25 Jun'09 to 02 Jun'09	18	Extension of Patfeeder canal	<ul style="list-style-type: none"> - Stock register not properly maintained, issuance were not properly recorded - Asset register not maintained by the office manager of the project - Purchasing committee not constituted - Comparative statements were not prepared - Used air conditioners were procured after incurring excess amount of carriage instead of procuring the same from city nearby project site
18 Aug'09 to 22 Aug'09	19	Hingol Dam	<ul style="list-style-type: none"> - Purchasing committee not constituted - Quotations not called for purchases exceeding Rs. 2,000 - Comparative statement not made - Payments made without prior approval of Project Manager

Annexure V

Outstanding information

Outstanding information requested for selected sample projects

- a) Project monitoring and evaluation mechanism in place along with monitoring and evaluation reports for the last two years;
- b) Staff turnover under the project;
- c) Correspondence with Client in relation with any delays or any other issues related with the project;
- d) Minutes of meetings carried out for review of progress on the projects;
- e) Budget vs. expenditure reports of the project;
- f) Details of procurements made under the project;
- g) Human resource management analysis/report along with details of hiring of staff made under the project;
- h) Determination of competency needs for personnel performing activities affecting quality;
- i) Details of any staff development (training) provided;
- j) Quality management plans;
- k) Quality management review reports;
- l) Status of preventive and corrective actions;
- m) Process for project design and evaluation; and
- n) Follow-up actions from previous management reviews.

Annexure W

Pattern of shareholding

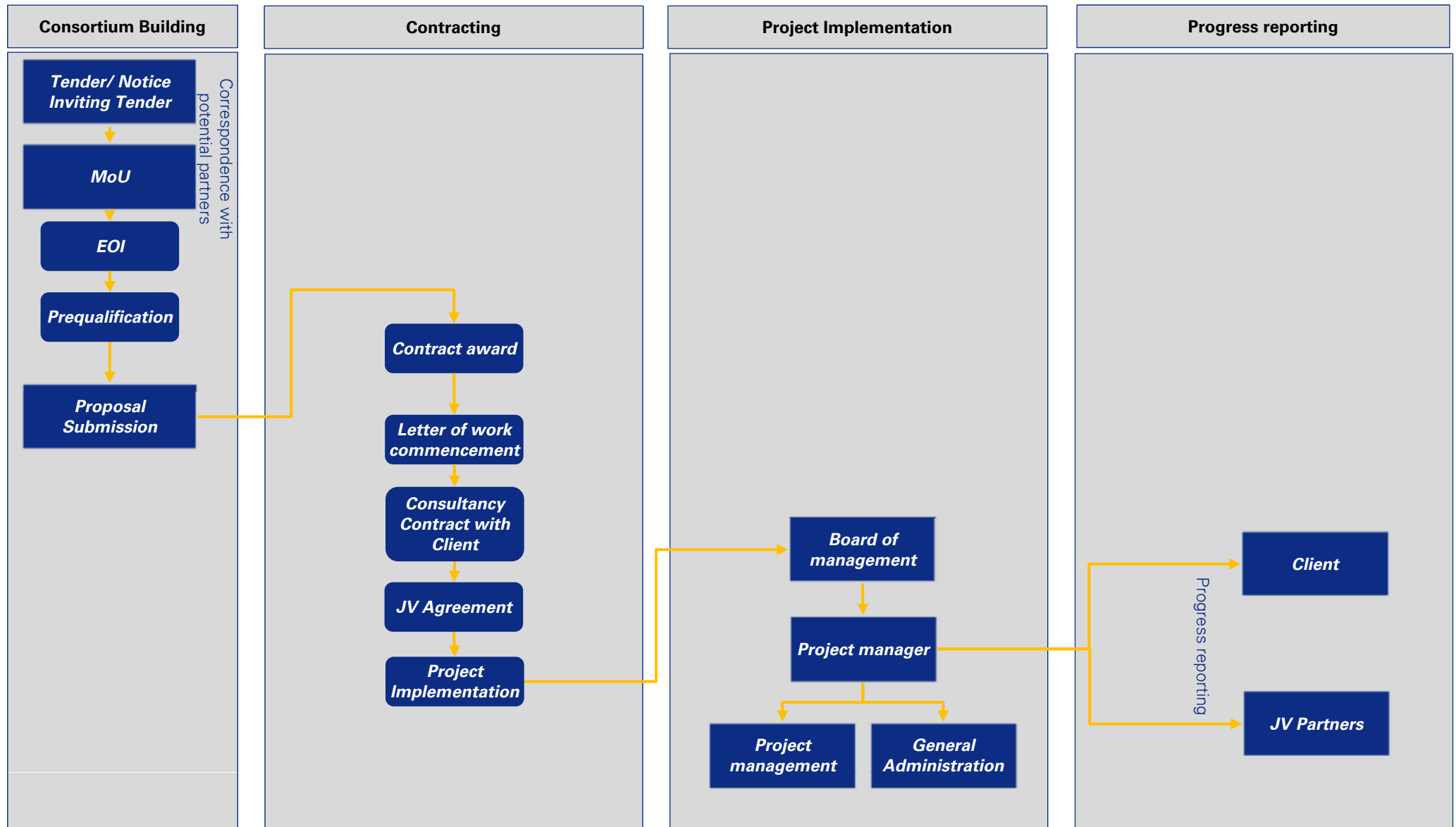
Status of shareholding						
Name of Shareholder	Status		No. of shares			Value per share
	NDC Company	NDC Firm	16 August 2007*	30 June 2010**	1 July 2010***	
Engr. Mian Barkat Ali Luna	Director	Partner	188	150	150	100,000
Engr. Ch. Ghulam Hussain	Director	Partner	188	150	150	100,000
Engr. Mr. Ijaz Ahmad Khan	Director	Partner	188	150	150	100,000
Engr. Ch. Foad Hussain	Director	Not partner	36	150	150	100,000
			600	600	600	
* Date of incorporation of the Company						
** Date at which shares were transferred by other 3 directors to Mr. Ch. Foad Hussain						
*** Effective date at which agreement between the firm and the company was executed						

Annexure X

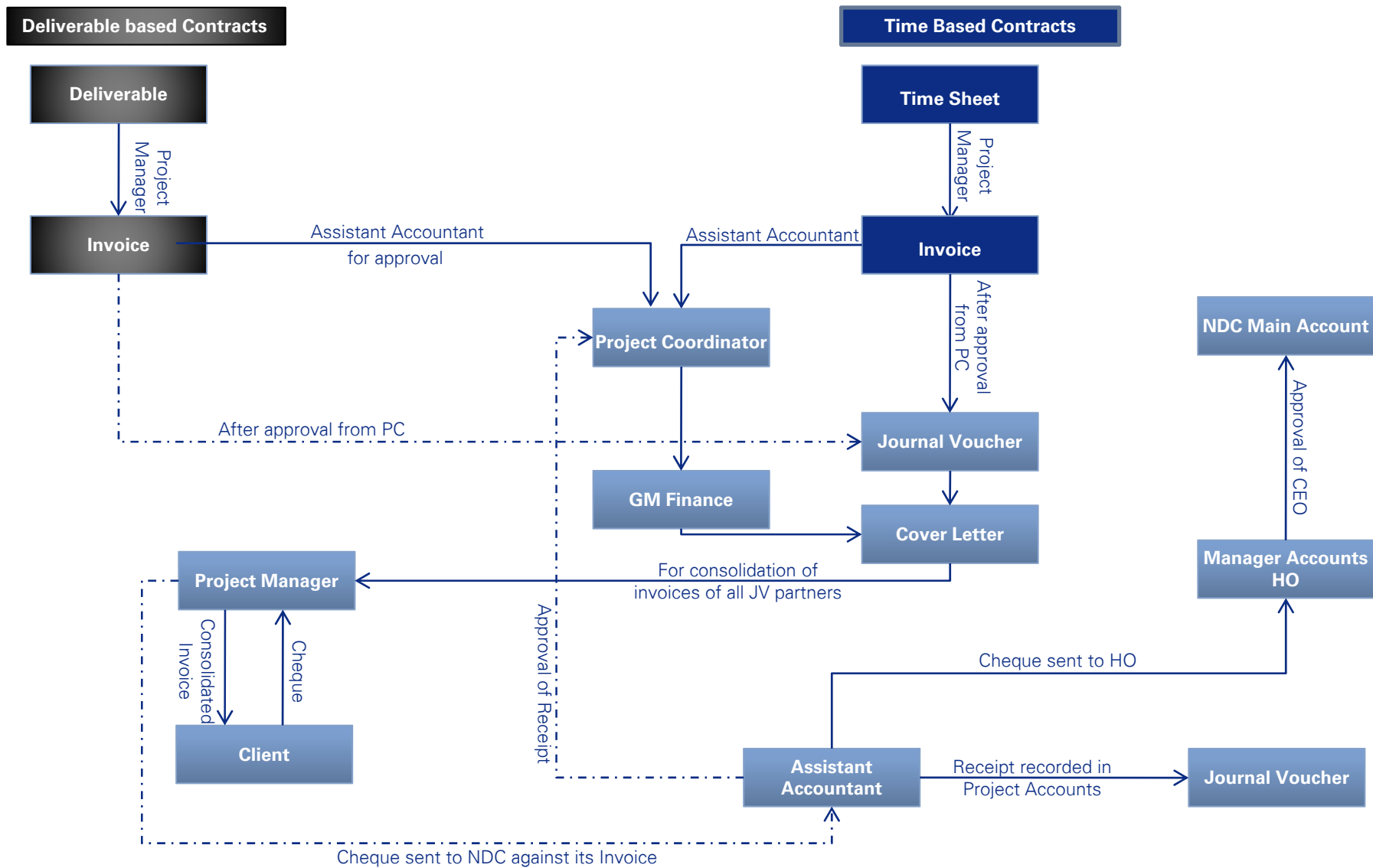
List of Contractual Staff

List of Contract Employees		
Sr. No.	Name	Designation
1	Engr. Masud Hayat Uppal	Advisor B.D. Cell
2	Ch. Sher Muhammad	Chief of Administration
3	Mr. Haroon Rashid	General Manager (F&A)
4	Engr. Muhammad Afzal Cheema	Manager Recoveries and Coordination
5	Engr. Karam Ellahi Ansari	Sr. Staff Officer
6	Mr. Nazar Muhammad	Deputy Manager Admin
7	Mr. Javed Basit Chishti	Manager Finance & Taxation
8	Rana Muhammad Munawar Khan	Administrative Officer
9	Mirza Muhammad Sadiq	Advisor ISO
10	S.H. Qamer Muftee	Secretary/ Tax Consultant
11	Mr. Muhammad Saleem	Librarian
12	Mr. Abdul Aziz	Computer Operator
13	Mr. Ghareeb Alam	Computer Operator B.D. Cell
14	Mr. Zakir Hashmi	Draftsman
15	Mr. Rafique Ahmad	Draftsman
16	Mr. Abdur Rashid	Driver with Director I.A. Khan
17	Mr. Safdar Ali	Naib Qasid

Annexure Y Project Life Cycle



Annexure Z Process of Invoicing & Receipt



Annexure AA

Project management issues

Project management issues

- We observed following issues in the project management function:

a) Neelum Jhelum Hydropower Project (Led by: MWH, USA)

- Lack of coordination between JV partners, Clients and contractors.
- Lack of decision-making resulting in increase in project cost from US\$ 2 billion to USD 3 billion.
- Expected completion date of project is October 2015, however, it is expected that the project will now complete in June 2017.
- Delays in project implementation occurred due to delay in review of designs from overseas partner,
- Delays in approval of addendum to consultancy agreement resulted in insufficient engineer's staff deployed at site.
- Project started in 2008 however quality assurance/quality control manager deployed in December 2010. Quality control manager carried out audits of works and reported under performance by the contractor.
- It was however noted that the Quality Control Manager is also a member of the supervisory team. As such, due to his involvement in operations, his independence is deemed to be compromised, bringing his credibility in doubt. It was noted that only those that are not involved in operations can carry out quality audits.
- Quality Management System followed are not clearly stated.
- It was observed that responsibilities have not been clearly stated and assigned. Confusion exists especially in regards to responsibility of Quality Control and Quality Assurance, two different functions which operate side by side.
- It was observed that no detailed job description exists for the Quality Manager under the project management team. Furthermore, it was noted that he is responsible to the Chief Resident Engineer (CRE), and not the project manager, which may lead to undue pressure and impairment of independence.

- It was observed that there was a shortfall in consulting staff. However due to lack of coordination regarding joint venture structure, vacancies are not easily identifiable. It was recommended that an overall structure be drawn up for all joint venture partners so as vacancies could be identified.
- It was observed that project quality reports were not archived which is necessary for Quality Management. Further it is pertinent to note that as per agreement with the client clause "3.10 Accounting, Inspection and Auditing" consultants are required to keep accurate and systematic accounts and records in respect of the services however a non compliance of this clause is observed.
- Contractors' Quality assurance procedures are not up-to standard and this result in further strain on the engineer's staff to strive for quality conforming to the specifications.
- Staff is not sufficient to monitor contractor's work in three shifts at all sites.

b) Issues raised in the Progress reports

i) Indus Tributaries High-Head Hydropower Complex Project (Led by: NDC)

- The Consultancy Services Contract for the three High-Head Hydropower projects, originally signed for a period of 48 months (up to November 10, 2006) were proposed to be extended up to November 2010.
- The Employer (WAPDA) approved the amendment for further 48 months up to November 10, 2010. However, due to continuing dispute regarding the Client's implementation of reduced remuneration rates, the amendment No.1 to the Consultancy Services Contract has not been signed yet.
- Extended period of Consultancy Services Contract up to November 10, 2010 has been completed and further amendment for the extension of Services is required to be processed.

Annexure AA

Project management issues – contd..

- The Consultant's workforce (engineers and support staff) at Besham and other sites of the Project continue facing problems in respect of availability of electricity supply for HHC-Sites office and living accommodation, appropriate living accommodation, appropriate living accommodation/facilities, and other amenities, to be provided by the client under Consultancy Service Contract.

ii) Groundwater Monitoring, Modeling and Management of the LBDCIP – Package 3 (Led by: LI, Germany)

- The project is trying to find new nomination for National Senior Hydro-geologist, National assistant Hydro-geologist, National Drilling specialist, National assistant Drilling specialist and National assistant Groundwater Modeler. The lack of these key staff is hindering progress.
- There is lack of computers that will be a major hindrance to project work.

iii) Engineering, Procurement and Construction of Darawat Dam Project (Led by; NDC)

- The EPC contractor not fulfilling the contractual requirements for design submission, which are being received in piece-meal / informal manner without supporting design calculation/analysis. The contractor is to be impressed upon to fulfill the submittal requirements for the timely review / finalization of the design.
- The EPC contractor's overall progress is behind schedule. The contractor is required to submit a revised program for the completion of works on time

iv) Construction Supervision of Flood Protection Works in Sindh (Sole by NDC)

- The works are spread in whole of Sindh in remote and not easily accessible areas. These areas have laws and order problem especially in upper Sindh. On two occasions, work was stopped on Tori bund. On left marginal bund of Gudu Barrage some local Mazari tribes did not allow construction of stone pitching in mile 13/4 to 15/0 of LM Bund. This area lies in Punjab province. However, With efforts of field staff, the matter was resolved.

Annexure AB

Non compliance with pay scale

Non compliance with payscale					US\$
Name	Project	Designation	Grade	Max basic salary as per pay scale	Current Basic Salary
Muhammad Idris Rajput	Flood Protection Works - Sindh	Project Manager	X	76,970	105,583
Asif	Flood Protection Works - Sindh	Computer Operator	IV	12,100	25,000
Altaf Ali	Flood Protection Works - Sindh	Junior Engineer	VII	29,350	40,000
Asif Ali Sahito	Flood Protection Works - Sindh	Surveyor	V	17,300	20,000
Naveed Ahmed Mangi	Flood Protection Works - Sindh	Junior Engineer	VII	29,350	40,000
Idrees Bhutto	Flood Protection Works - Sindh	Junior Engineer	VII	29,350	40,000
Babar Ali Qazi	Flood Protection Works - Sindh	Junior Engineer	VII	29,350	40,000
Z.A Mughal	Ext. Parfeeder Canal Project	Project Manager	X	76,970	83,938
Malik Ahmad Khan	Darawat Dam Project	Project Co-ordinator	X	76,970	168,509
Adnan Maqbool	Darawat Dam Project	Senior Engineer	VIII	42,960	78,637
Masroor Ahmad	Darawat Dam Project	Principle Contt. Engineer	IX	61,520	151,658
Note: Compliance testing is based on a sample of 20 employees.					

Annexure AC

Receivable of the company as of 31 July 2011

Receivable of the company as of 31 July 2011				US\$
Name of the Project	Up to 60 Days	Up to 90 Days	Up to 180 Days and above	Total
Ext. of Patfeeder	94,125	24,448	56,744	175,318
Neelum-Jhelum	185,421	64,838	-	250,259
Diamer Basha	48,720	46,770	58,318	153,808
RRIDS	\	3,852	105,370	109,222
Indus High Head	44,356	47,895	61,142	153,393
Keyal Khwar	55,435	28,333	23,836	107,604
Tank Zam	-	107,206	238,656	345,861
Hingol Dam	-	-	214,298	214,298
Darwart Dam	28,807	42,583	-	71,390
Public Health (N. Zone	28,938	25,986	21,843	76,767
LCC - Part - B	46,856	-	-	46,856
PMU LBDCIP-Pak-2	465	3,256	19,289	23,010
Amandara Headwork-2	-	-	3,655	3,655
Gomal Zam Dam	14,996	17,927	15,530	48,453
LBDCIP-Ground Water	15,595	14,060	9,416	39,071
Amandara Headwork-5	-	4,264	-	4,264
Thal Water Management	-	-	3,808	3,808
HE-PIAC	8,055	11,415	-	19,470
CSFPW-Sindh	148,925	-	-	148,925
Lasbela Canal Const. Phase	3,140	-	-	3,140
RBOD-I Project	-	-	46,493	46,493
RBOD-III Project	-	-	25,132	25,132
c.s. OF Med Inst-LGH	14,372	-	6,159	20,531
HARPO Hydropower	17,507	-	-	17,507
Lasbela Canal Old	-	-	2,326	2,326
Small Dams FATA	25,932	-	-	25,932
Grand Total	781,645	442,831	912,015	2,136,491

Annexure AD Rating Matrix

Low Risk

- Capacities and systems fully satisfy minimum requirements.

Medium Risk

- Capacity gaps pose some manageable risks and certain strengthening measures must be completed.

High Risk

- Capacity gaps pose major risks which must be addressed to ensure that the risks have been mitigated to manageable levels.

Annexure AE

Notice to the reader

Notice to reader

This report has been prepared by KPMG Taseer Hadi & Co. ('the Firm/ KPMG') solely for the purpose of providing reasonable assurance to ASP/ the Client that National Development Consultants (Private) Limited has an acceptable organizational structure organizational and management structure, accounting, financial management systems and other systems of internal controls, quality assurance capabilities, as well as acceptable policies, procedures and practices. KPMG has been mandated by the ASP to perform pre-award assessment on National Development Consultants (Private) Limited in accordance with the Task Order shared with KPMG through email dated 05 September 2011. This report contains our findings, based on our field work up to 12 September 2011. We have not undertaken to update our report for events or circumstances arising after that date.

This report is limited to the scope set out in our task order. Accordingly, there may be other issues of interest to the Client which may not be included in this report.

This report is confidential and for the internal use of the Client only. It is not to be distributed or to be referred or quoted, in whole or in part, without our prior written consent except as specifically provided in our work order.

The Firm does not accept or assume responsibility to anyone other than the addressees of this report, for its work, for this report or for any judgments, findings, conclusions, recommendations or opinions that the Firm has formed or made. The work was undertaken and this report was issued, on agreed terms of engagement, in order that the Firm might state to the addressees those matters on which it agreed to report and for no other purpose.

The Firm's work and this report were not planned or prepared in contemplation, or for the purpose, of anyone other than the addressees' interests or needs. Therefore, items of possible interest to others may not have been specifically addressed for the purposes of this report. The use of professional judgment, and the assessment of issues or their relevance (as appropriate) for the purpose of the Firm's work and this report, mean that matters may have existed that would have been assessed differently by others for their purposes. The Firm does not warrant or represent that the information in this report is appropriate for their purposes. This report was not created for, and should not be treated as suitable for, any purpose other than that set out in the report itself and/or in the terms of engagement.

For the foregoing reasons, this report cannot in any way serve as a substitute for other enquiries and procedures that others would (or should) otherwise undertake and judgments others must make for the purpose of satisfying themselves regarding any matters of interest to others regarding this report or the Client or any other purpose. Apart from the addressees and their reliance on this report, no-one else should rely for any purpose whatsoever upon this report.

Our report makes reference to 'KPMG Analysis'; this indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented; we do not accept responsibility for the underlying data.

In accordance with its policy, KPMG advises that neither it nor any Partners or employees undertakes responsibility arising in any way whatsoever, to any person other than the management of the Client in respect of the matters dealt with in this report, including any errors or omissions therein, arising through negligence or otherwise, howsoever caused.

Annexure AE

Notice to the reader – contd..

Scope of work

In accordance with the terms of reference as per task order shared with KPMG through email dated 05 September 2011, we have performed pre-award assessment of National Development Consultants (Private) Limited (The Company).

The procedures we performed were based on the our agreement with the scope of the Client. The management of the Client have confirmed that these procedures will be sufficient for their purpose. We make no representation regarding the sufficiency of these procedures for the addressees' purpose.

Our comments are based on the work carried out on the basis of information provided by the National Development Consultants (Private) Limited, the stakeholders and other publicly available information. The information provided by the stakeholders and the Company included the information made available during our fieldwork in premises of the Company.

We draw your attention to the following significant matters:

The findings of the procedures performed are presented in this report. The procedures performed do not constitute an audit and had we performed additional procedures or conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention which we would have reported to the addressees.

We have indicated within our report the sources of the information presented. We have not sought to establish the reliability of these sources by reference to independent evidence. We have analysed the information made available and to the extent possible, have satisfied ourselves that the information presented is consistent with other information provided to us during the course of our work.

All analysis, conclusions or assessments have inherent limitations since they are based on un-verified information.

Our reading of the documents and relevant records was limited to those provided to us by the Company and the stakeholders and other publicly available information. In performing our work, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies.

Annexure AF Management responses

NDC's response on draft report

NDC response on draft pre-award assessment report by KPMG

- Reference is made to the Draft Pre-award Assessment Report and later discussions in the USAID's Assessment & Strengthening Program (ASP) Office Islamabad dated 21st of September, 2011 participated by the KPMG and NDC representatives in the presence of USAID's ASP. Financial and Procurement and Acquisition team. Although NDC presented various explanations during the meeting yet. as agreed, we are also transmitting our formal response for consideration of the KPMG to revise their assessment/rating to bring it closer to reality. Our heading wise comments on the Draft Assessment Report are as follows:

1. Governance & Management Structure

- As verbally explained during the meeting, services of a Corporate Law Firm were used for the business transfer agreement and we believe that all the formalities were observed by our counsel applicable in this typical/unique situation where an operating firm has been transformed to a Pvt. Ltd Company.
- We do seek Audit Certificates from Kamran and Company, our External Auditors, which certify our overall salary figures received and total cost of running our business which is not directly chargeable to our clients. As about the audit of NDC Pvt. Ltd. Company, we have already explained that due to NDC being in transition period, it is presently being managed and should be available shortly. However, we expected that KPMG team would take into account our financial statements for previous three years to award the rating.
- NDCs accounts are Audited internally which have been seen by the KPMG representatives. They have reservations about the independence of the Auditor which is a misplaced notion since his reports are presented directly to the Directors of the company. However, we can accept the observation that the Finance and Audit functions be segregated and "Roles & TORs" of some staff documented. Accordingly, we earnestly believe that our rating as High Risk entity in this category is inappropriate and unrealistic which needs to be revised. We strongly believe based on the logical facts that we should fall in Low Risk category under this head.

KPMG 's comment on the responses of NDC on draft pre award assessment report

1. Governance & Management Structure

- The management has not provided adequate clarification with respect to the business transfer arrangement. Issues identified in the assessment report in this respect have not been addressed.
- Issues related to external audit of the Company/ Assessee have not been clarified by the management.
- Issues relating to the independence of internal audit function have not been adequately clarified by the management.
- Risk assessment ratings are based on the detailed analysis of specific function and issues identified during assessment. Issues identified are mentioned in the respective sections.

Annexure AF Management responses – contd..

NDC's response on draft report – contd..

2. Financial Management & Accounting System

- Unfortunately the comments under this section give an impression as if nothing is in order for company's financial management and accounting system which is far from reality. Mere one fact that financial statement for the 1st year of NDC Pvt. Ltd life was in the process of finalization renders it a High Risk entity, especially when the Assessors did review our Financial Statements for the past three (3) years which are excellent by all standards, is far from reality. The Assessors were provided the following detailed financial and accounting information:
 - Financial Statements for past three (3) years;
 - Bank reconciliations;
 - Ledgers; Details of Bank Accounts
 - Receipts and Payments of latest 3 months
 - Host of other information
- The provided information clearly demonstrates that NDC has been conducting its business fruitfully and successfully which we feel has not been considered in assignment of High Risk rating.
- KPMG comment about inadequate staff strength and qualifications is based on lack of in-depth review of staff studies being carried out by our Accountants and two (02) Jr. Accountants out of twenty one (21) whose qualifications may be short yet their rich experience has been overlooked. In the light of our verbal discussions during the meeting and the aforegiven explanations we sincerely believe that our High Risk Rating is not realistic and needs to be revised to Low Risk.

3. Procurement System

- NDC Pvt. Ltd has a creditable system for the small scale procurements to run its Head Offices operations. As explained during the meeting, for the emergent situations, it is considered rational to make procurements on single source basis as one can also find in World Bank and Asian Development Bank Procurement Guidelines.
- KPMG comment about "dedicated procurement functions, information on service contracts, demonstrated experience in international Procurement and legal vetting absence" to us give an impression that Assessors have failed to grasp the model of functioning of Consulting Companies and consequently have arrived at and landed on a different planet.

KPMG 's comment on the responses of NDC on draft pre award assessment report contd..

2. Financial Management & Accounting System

- Issues related to financial statements of the company have not been clarified/ explained by the management. Management has agreed that financial statements of the Company have not been prepared/ finalized since inception and accordingly were not provided during the assessment. Financial statements of the NDC Partnership were provided which were not required for the assessment of the company.
- Clarification has been made by the management regarding provision of information such as bank reconciliations, ledgers, details of bank account and receipts and payments of latest 3 months. However no such observation was made in the report.
- Observation regarding adequacy of qualification and skill set of key finance staff has been reworded to reflect that except for General Manager – Finance, other key staff do not have adequate qualifications.
- Risk assessment rating is based on the significance of issues and in accordance with KPMG's risk rating criteria specified in the report.

3. Procurement System

- Relevant clarifications have not been provided by the management in respect of issues identified in the draft pre-award assessment report.
- Procurement function of the company is rated as medium risk instead of High risk as mentioned in the management comment.
- Risk assessment rating is based on the significance of issues and in accordance with KPMG's risk rating criteria specified in the report.

Annexure AF Management responses – contd..

NDC's response on draft report – contd..

- NDC Management takes pride in having some eminent and highly experienced procurement personnel on its Rolls who have performed with distinction on mega projects for international procurements. We, therefore, strongly differ with rating of NDC as a High Risk entity under this head which we believe should have been Zero Risk, not even Low Risk.

4. Human Resource Function

- As far as the assessment about the management of Human Resources is concerned. NDC may lack the modern tools but it is not short of traditional methods. However, we appreciate some of the observations while some, e.g. expected staff redundancy after completion of numerous projects does not take into consideration of two (02) Mega Projects (4300 MW Dasu Hydropower Project and Sakkher Barrage Project) recently awarded to our group with substantial share of input from NDC. This is also true for training within our premises as well as outside such as seminars/workshops attended by our key staff at Pakistan Engineering Council (PEC). Pakistan Engineering Congress. International Commission on Irrigation and Drainage (ICID). International Commission on Large Dams (ICOLD) and DATs Centre for Development Excellence (CDE) etc.

5. Absorptive Capacity

- As discussed in detail during our meeting in Islamabad, the assessors have overlooked how the company manages its projects. We earnestly believe our handling of Project affairs in financial, human resources and M & E functions fully conform to the specific requirements of our trade. There is no doubt that room for improvement in any system is always there and NDC is always open to adopt new interventions for improvement in our system.
- We are surprised to read KPMG observation that they were not provided information about selected projects .We reiterate formally that NDC did provide the following information:
 - Consultants Service Agreements
 - Projects Monthly Progress Reports (which also comprehensively cover M & E requirements)
 - Invoicing and Receipts Status of almost all Projects

KPMG 's comment on the responses of NDC on draft pre award assessment report contd..

4. Human Resource Function

- Management is in agreement with the observations made regarding the absence of necessary tools for human resource management such as staff utilization and hiring plans.
- Issues relating to staff redundancy have not been adequately clarified by the management as relevant information in respect of staff utilization in Dasu hydropower project and Sukkur Barrage was not provided.

5. Absorptive Capacity

- Issues identified in the relevant section have not been adequately addressed in the management comments.
- Critical information including actual share of the Company in on-going and completed projects, project management documentation maintained at project sites, existing financial position of the Company were not provided for the assessment purpose as mentioned in the report. As highlighted in the relevant section of the draft pre-award assessment report, the risk rating may have differed if we were provided required information for our review and assessment of the function.
- Observation related to outstanding information of selected project sample has not been adequately clarified by the management. Information provided in respect of Taunsa barrage project was not included in the information request sent to management, however, it was reviewed and provided on the specific request of the management after completion of our field work.
- Risk assessment rating is based on the significance of issues and in accordance with KPMG's risk rating criteria specified in the report.

Annexure AF Management responses – contd..

NDC's response on draft report – contd..

- Payments made to Staff
- It was explained that Projects are mandatorily managed by the designated persons who are usually Project Managers and the parent firms cannot write directly to the clients. Even the relevant Special Conditions Clause to the effect was shown to KPMG representatives. It was also explained that except for the specific feedback, the parent companies are least involved with direct issues resolutions and the project files/records are property of the clients and handed over to them on completion of projects. Despite that, all kinds of records pertaining to Taunsa Barrage Project were inspected by the Assessment Team as a sample to demonstrate that our project management conforms to well accepted methodologies. After providing such detailed information for the sample project, we were of the opinion that it would at-least satisfy the Assessors curiosity about meaningfulness of our developed methodologies. However, seemingly it has not.
- In the light of the foregoing, we do request the Assessors to reconsider their rating system and revise their assessment to bring it closer to reality.

6. Monitoring & Evaluation

- We have explained the Assessors in detail about the Monitoring and Evaluation System employed by consulting entities (including NDC) through adoption of a comprehensive recording of all aspects of Project Implementation in the form of Progress reports which, interalia, necessarily have following information:
 - Project Digest containing scope and components, dates of various events and targets etc
 - Physical Progress in terms of schedules and actually attained progress
 - Financial Progress; scheduled and actual (Both items (ii) and (iii) are depicted in tabular and graphic forms)
 - Status of utilization of consultants* input, staff mobilized/demobilized and total versus actually consumed man-months of each professional
 - Bottlenecks on the Project and
 - Matters requiring attention of designated entities

KPMG 's comment on the responses of NDC on draft pre award assessment report contd..

6. Monitoring & Evaluation

- Relevant clarifications have not been provided by the management in respect of issues identified in the draft pre-award assessment report.
- Information provided for the assessment was reviewed in detail. The contents of information were discussed with relevant management team of the Company to confirm our understanding of the systems and status of Company's controls and activities, which formed basis for our conclusions and issues identified in the pre-award assessment report.
- Our field work and process for formulation of observations does not require usage of a software.
- Relevant clarifications have not been provided in respect of issues related to dedicated monitoring and evaluation function.
- Risk assessment ratings are based on individual issues identified and mentioned in the relevant section of the report.

Annexure AF Management responses – contd..

NDC's response on draft report – contd..

- We believe, due to different format in the minds and computer softwares in use of the Assessment team, they completely overlooked our Monitoring and Evaluation system.
- Additionally, we explained that we do not believe creation of an independent M & E arm within the Head Office for carrying out of M & E is cost effective for our operations. However, if our clients are willing to foot the bill, we have no hesitation to create one for the specific project.
- We, therefore, urge the KPMG team to delve deeper into existing system of the M & E in use on our Projects and re-evaluate their system. Hopefully, that is expected to convince them to re-award NDC with low risk rating under this head too.

Overall Assessment

- As per the draft Pre Award Assessment Report, KPMG seems to have given NDC a pretty poor rating which was clearly pointed out by USAID's Acquisition Specialist, "as if 90 percent of our operations fall in unacceptable category" which, in our view, is gross misjudgment. Please note that we have never been blamed for poor quality of our services by any of our client, todate.
- We would like to take this opportunity to allow ourselves to render our judgment on KPMG's Assessment. We feel the Assessors staff believe so much in the capability of the softwares employed by them that human dimension has been completely ignored. For instance, the percentage input/shares of NDC in thirteen (13) sample projects were requested by the KPMG representatives. Although, the companies providing Architectural and Engineering Services do not keep such information handy, NDC computed and provided the percentage of its shares in the Joint Ventures in terms of person's man-months for all the thirteen (13) sample projects. However, the above mentioned information was not considered by KPMG because their software/model was not designed to cater the provided information. We, therefore, strongly believe that logical information provided by NDC regarding its Governance and Management Structure, Financial Management. Procurement System & Monitoring and Evaluation was disregarded by KPMG only because of the tact that it was not in the format required by the software which has certainly deviated their ranking from the ground facts and realities. Rationality and norms of justice demand that Machines may be used but not by completely blanking the GOD bestowed wisdom. Machines can never replace the human wisdom in its entirety.

KPMG 's comment on the responses of NDC on draft pre award assessment report contd..

Overall Assessment

- Overall assessment of the company has been carried out in accordance with methodology and scope agreed with ASP RSPN. Overall assessment is based on the significance of issues and in accordance with KPMG's risk rating criteria specified in the report.